INTRODUCTION

Reader's Guide

This reader's guide describes the structure of the 2011 Adopted Budget and outlines its contents. It is designed to help citizens, media, and City officials more easily understand and participate in budget deliberations. In an effort to focus on what is achieved through spending, the 2011 Adopted Budget includes funding levels and expected program outcomes, taking into consideration the current economic situation.

A companion document, the 2011-2016 Adopted Capital Improvement Program (CIP), identifies expenditures and fund sources associated with the development and rehabilitation of major City facilities, such as streets, parks, utilities, and buildings, over the next six years. The CIP also shows the City's financial contribution to projects owned and operated by other jurisdictions or institutions. The CIP fulfills the budgeting and financing requirements of the Capital Facilities Element of Seattle's Comprehensive Plan by providing detailed information on the capacity impact of new and improved capital facilities.

Seattle budgets on a modified biennial basis. See the "Budget Process" section for details.

The 2011 Adopted Budget

This document is a detailed record of the spending plan for 2011. It contains the following elements:

- Budget Overview – A narrative describing the current economy, highlighting key factors relevant in developing the budget document, and how the document addresses the Mayor and Council's priorities;
- Summary Tables – a set of tables that inventory and summarize expected revenues and spending for 2011;
- General Subfund Revenue Overview – a narrative describing the City's General Subfund revenues, or those revenues available to support general government purposes, and the factors affecting the level of resources available to support City spending;
- Selected Financial Policies – a description of the policies that govern the City's approach to revenue estimation, debt management, expenditure projections, maintenance of fund balances, and other financial responsibilities;
- Budget Process – a description of the processes by which the 2011 Adopted Budget and 2011-2016 Adopted CIP were developed;
- Departmental Budgets – City department-level descriptions of significant policy and program changes from the 2010 Adopted Budget, the services provided, and the spending levels proposed to attain these results;
- Appendix – an array of supporting documents including Cost Allocation, a summary of cost allocation factors for internal City services; a Position Modifications report, listing all position modifications contained in the 2011 Adopted Budget; a glossary; and Citywide statistics.

Departmental Budgets: A Closer Look

The budget presentations for individual City departments (including offices, boards, and commissions) constitute the heart of this document. They are organized alphabetically within seven functional clusters:

- Arts, Culture, & Recreation;
- Health & Human Services;
- Neighborhoods & Development;
- Public Safety;
- Utilities & Transportation;
- Administration; and
- Funds, Subfunds, and Other.

Each cluster, with the exception of the last, comprises several departments sharing a related functional focus, as shown on the organizational chart following this reader's guide. Departments are composed of one or more budget control levels, which in turn may be composed of one or more programs. Budget control levels are the level at which the City Council makes appropriations.

The cluster "Funds, Subfunds, and Other" comprises General Fund Subfunds that do not appear in the context of department chapters, including the General Subfund Fund Table, General Subfund Revenue Table, Cumulative Reserve Subfund, Emergency Subfund, Revenue Stabilization Account, Judgment and Claims Subfund, and Parking Garage Fund. A summary of the City's general obligation debt is also included in this section.

As indicated, the Adopted Budget appropriations are presented in this document by department, budget control level, and program. At the department level, the reader will also see references to the underlying fund sources (General Subfund and Other) for the department's budgeted resources. The City accounts for all of its revenues and expenditures according to a system of funds and subfunds. In general, funds or subfunds are established to account for specific revenues and permitted expenditures associated with those revenues. For example, the City's share of Motor Vehicle Fuel taxes must be spent on road-related transportation activities and projects, and are accounted for in a subfund in the Transportation Fund. Other revenues without statutory restrictions, such as sales and property taxes (except voter-approved property taxes), are available for general purposes and are accounted for in the City's General Subfund. For many departments, such as the Seattle Department of Transportation, several funds and subfunds, including the General Subfund, provide the resources and account for the expenditures of the department. For several other departments, the General Subfund is the sole source of available resources.

Budget Presentations

Most department-level budget presentations begin with information on how to contact the department, as well as a description of the department's basic functions and areas of responsibility. There follows a narrative summary of the major policy and program changes describing how the department plans to conduct its business in light of the proposed budget. When appropriate, subsequent sections present budget control level and program level purpose statements, and program summaries detailing significant program changes from the 2010 Adopted Budget, which was approved in November 2009, to the 2011 Adopted Budget.

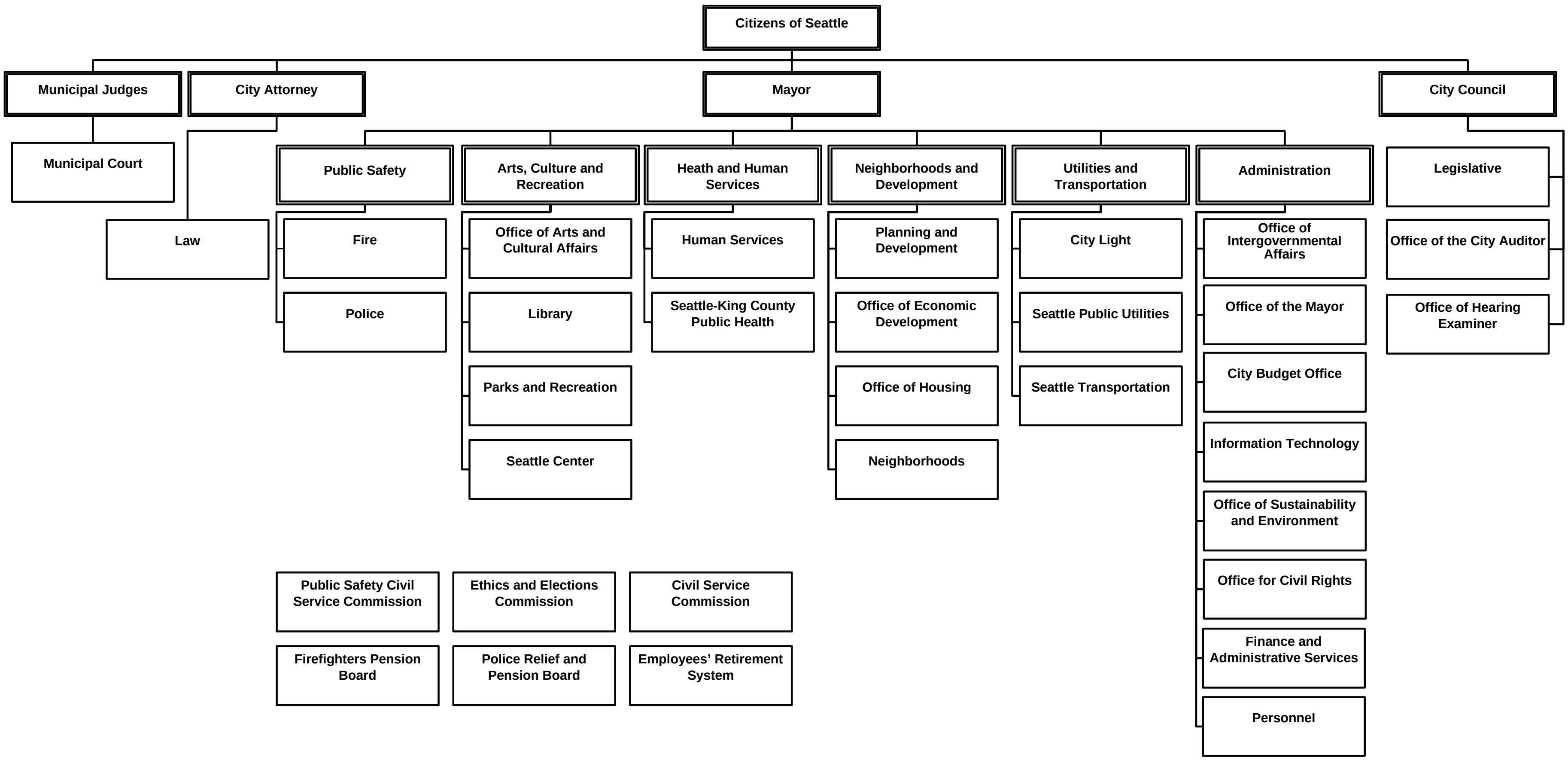
All department, budget control, and program level budget presentations include a table summarizing historical and adopted expenditures, as well as proposed appropriations for 2011. The actual historical expenditures are displayed for informational purposes only.

A list of all position changes proposed in the budget has been compiled in a separate report entitled, "Position Modifications in the 2011 Adopted Budget." Position modifications include abrogations, additions, reclassifications, and status changes (such as a change from part-time to full-time status), as well as adjustments to departmental head counts that result from transfers of positions between departments.

For information purposes only, an estimate of the number of staff positions to be funded under the Proposed Budget appears in the departmental sections of the document at each of the three levels of detail: department, budget control, and program. These figures refer to regular, permanent staff positions (as opposed to temporary or intermittent positions) and are expressed in terms of full-time equivalent employees (FTEs). In addition to changes that occur as part of the budget document, changes may be authorized by the City Council or the Personnel Director throughout the year, and these changes may not be reflected in the estimate of staff positions presented for 2011.

Where relevant, departmental sections close with additional pieces of information: a statement of actual or projected revenues for the years 2009 through 2012; a statement of fund balance; and a statement of 2011 appropriations to support capital projects appearing in the 2011-2016 CIP. Explicit discussions of the operating and maintenance costs associated with new capital expenditures appear in the 2011-2016 Adopted Capital Improvement Program document.

City Organizational Chart



On November 22, 2010, the Seattle City Council passed unanimously the 2011 Adopted Budget and the 2012 Endorsed Budget. The purpose of this summary is to document the significant changes the Council made to the 2011-2012 Proposed Budget. This summary is intended to complement and provide an update to the 2011-2012 Proposed Budget Overview, which describes the major themes and trends for the 2011-2012 budget. While including a number of notable changes, the budget adopted by the Council largely reflects the themes and changes that were originally proposed by Mayor Mike McGinn when he transmitted his recommended budget to the Council on September 27, 2010.

Budget Outlook – Major Highlights

There were three noteworthy factors that influenced the City's finances as the City Council adopted the 2011 budget: general stability in the General Fund revenue forecast; the results of the November 2010 general election, and the opportunity to restructure the timing of the City's share of the compensation for the State's purchase of the Museum of History & Industry (MOHAI) facility in McCurdy Park.

Economic Outlook and Its Impact the City's Revenue Picture: For the first time in two years, the national and local economies, while still struggling to recover from the longest and deepest recession since the Great Depression, showed signs of stability in the intervening months after the 2011-2012 budget was originally proposed. Although some reductions were made to the sales tax and business & occupation (B&O) tax revenue forecast to reflect non-economic forecast conditions, such as the voted repeal of the sales tax on candy, gum, and bottled water (discussed below), there were no revisions reflecting changes in economic conditions from the one prepared in August. Continued weakness in construction activity and the commercial and residential markets, however, required additional downward revisions in two other key revenues – property tax and real estate excise tax (REET). Based on revised data from the King County Assessor's Office, the value of new construction, which contributes to property tax revenues, is projected to drop 62% from $1.7 billion to $667 million between 2010 and 2011. This far exceeds the estimated 37% drop that was assumed in the revenue forecast upon which the proposed budget was based. This change results in an $854,000 drop in property tax revenue in 2011 and a $1.6 million drop in 2012.

Similarly, REET revenues, which support the City's general government capital program and are deposited in the Cumulative Reserve Subfund of the General Fund – were down significantly as a result of continued unprecedented weakness in the real estate market. Locally, single family home sales were down 30% in the third quarter of 2010 as compared to the same period in 2009. Nationally, forecasters are anticipating additional weakness in real estate sales in both 2011 and 2012. This weakness is attributed to steeper than expected declines in home sales following the expiration of the federal home-buyers' tax credit on April 30, 2010. Also, the banking industry is facing challenges in processing foreclosures, which also contributes to the underperformance of this sector. As a result, the forecast for REET revenues are down $2.4 million for 2010 and $4.4 million for 2011. A modest recovery in REET revenues is anticipated for 2012, with an increase of $1.5 million.

November 2010 General Election – the Repeal of the Candy, Gum and Bottled Water Sales Tax: Washington State voters approved Initiative 1107, which resulted in the repeal of the sales tax on candy, gum, and bottled water effective December 2, 2010. This development results in a $1.6 million decrease in 2011 and $1.7 million decrease in 2012 in anticipated sales tax revenues. The impact of the November general election on City revenues could have been much worse. Initiatives 1100 and 1105, which would have privatized liquor sales in the State of Washington, would have resulted in the loss of $2-4 million in revenues in 2011 and $4-7 million in revenues 2012. Both of these initiatives were rejected by Washington State voters. Finally, the King County public safety sales tax proposal, which would have increased the sales tax by 0.2% and added $8.7 million in revenues to the City's General Fund in 2011, was also rejected by voters.

Restructured Timing of Payments from the Museum of History & Industry (MOHAI): For over 50 years, the Museum of History & Industry (MOHAI) has occupied a City-owned facility in McCurdy Park just north of Highway 520. The Museum will be re-locating to the City-owned Lake Union Armory Building to make way for the construction of the new Highway 520. As part of this arrangement, MOHAI successfully negotiated with the Washington State Department of Transportation for $40 million for the building occupied by MOHAI at

McCurdy Park, a larger sum of money than was originally anticipated. The City anticipates receiving additional funds from the State for the land in 2011 or 2012.

Given the City's financial challenges, MOHAI agreed to restructure the revenue flow from the transactions described above, giving the City access in 2011 to $8.5 million of MOHAI's anticipated $40 million payment from the State. The City will start repaying the funds by 2013 likely using its anticipated proceeds from the previously discussed sale of McCurdy Park to the State. This agreement provided the Council with a substantial sum of money to restore funding on a one-time basis for a number of the programs originally slated for reduction in the 2011-2012 Proposed Budget.

The other programmatic changes are supported by a number of miscellaneous adjustments, including increased revenues from Parks fees, use of reserved fund balance given lowered inflation estimates, and additional management efficiency reductions for 2011 and 2012.

Significant Programmatic Changes:

Below is a high level summary of the most significant programmatic changes included in the 2011 Adopted Budget and the 2012 Endorsed Budget. Additional details about these and other changes to the proposed budget are included in the department detail pages in subsequent sections of this book.

Public Safety: The budgets for the City of Seattle's police and fire functions were adopted largely as proposed. The notable exception is the increase in funding to restore two crime victim advocate positions, bringing the total number of victim advocates in 2011 and 2012 to seven, the same number that are funded for 2010.

Human Services: In adopting the budget for the Human Services Department (HSD), the Council retained all of the administrative reductions originally included in the 2011-2012 Proposed Budget with the exception of restoring a 0.5 FTE Volunteer Programs Coordinator position to HSD that will be funded by the Cable Television Franchise Subfund. In addition, the Council set a $200,000 savings reduction for HSD for 2012, instructing the department to identify efficiencies and opportunities for streamlining the administration of agency contracts. Meanwhile, on the direct service side, the adopted budget preserves funding for the following programs:

- $149,000 in funding for subsidies that reduce the fee charged to low-income batterers who are mandated to attend batterers intervention programs;
- $129,000 in funding for the Indoor Air Quality program which evaluates home environments for people with asthma;
- Partial preservation in the amount of $42,000 for Community Crime Prevention programs, resulting in a net reduction of $18,000;
- $36,000 for a drop-in day program for seniors;
- $30,000 for child care information and referral service;
- $34,000 for policy advocacy and technical assistance to non-profit agencies;
- Partial preservation in the amount of $20,000 to two agencies that support food banks and meal programs, resulting in a net reduction of $20,000 to encourage efficiencies in organizational support to food banks and meal programs; and
- $18,000 in funding for a civilian officer foot patrolman in the International District.

In addition, the adopted budget adds funding for the following new programs:

- $100,000 to fund increased costs related to shelter services;
- $76,000 to fund six months of uninterrupted winter shelter and services in 2011 and 2012;
- $15,000 to provide homeless housing providers and landlords with training on the dynamics of domestic violence and the significant and complex issues many survivors and their families face when they attempt to obtain safe housing; and

- $20,000 to SafeHavens to bring Seattle's contribution in line with the share of SafeHavens services provided to Seattle residents.

In addition, the Council eliminated the proposed addition of $150,000 in the HSD budget in 2011 to fund a new Immigrant and Refugee program, and instead moved this funding to the Finance General budget in 2012 to allow additional time to review this program in 2011.

Parks: The 2011 Adopted Budget adds $248,000 in funding to restore a total of 75 drop-in hours at the Alki, Ballard, Green Lake, Laurelhurst, and Queen Anne community centers. As a result of this change, these community centers will be open approximately 32 hours per week, as compared to 52 hours per week at the 20 other community centers throughout the City. In addition, the adopted budget instructs Parks to continue its efforts to identify efficiencies in its community center operations.

Seattle Public Library: The 2011 Adopted Budget retains all of the programmatic changes included in the proposed budget. It adds $220,000 in capital funding for both 2011 and 2012 to support the library's major maintenance program. In addition, the adopted budget instructs the library to explore a potential 2012 property tax levy ballot measure to support on-going operating costs of Seattle's public library system.

Department of Neighborhoods: The 2011 Adopted Budget for the Department of Neighborhoods (DON) provides funding to retain three of the six neighborhood district coordinators that would have been eliminated in 2011. This will bring the total number of district coordinators in 2011 to ten. In addition, funding is provided to DON to continue operating the West Seattle Neighborhood Service Center that had been slated for closure, bringing the total number of Neighborhood Service Centers for 2011 up to seven. The 2011 Adopted Budget also restores funding for a Senior Community Development Specialist in the historic preservation program. And, an additional $300,000 in funding is provided to the Neighborhood Matching Fund. Finally, the 2011 Adopted Budget sets a $75,000 savings target for DON to meet through the elimination of a management/supervisory level position in 2011.

Seattle Department of Transportation: The 2011 Adopted Budget for the Seattle Department of Transportation (SDOT) makes two significant policy and budget changes to the original proposed budget for SDOT. The original proposed budget included increases in parking meter rates to enhance the management and regulation of on street parking. The rate for parking downtown was proposed to increase from $2.50 per hour to $4.00 per hour, while the rate in other parts of the City would increase by $0.50 per hour. In addition, the proposed budget recommended extending the paid parking hours by two hours until 8:00 p.m. in the evenings and instituting paid parking on Sundays (11:00 a.m. – 6:00 p.m.) in some neighborhoods. In adopting the 2011 budget, the Council made several significant changes to the parking meter proposal. The changes are based on a premise that the City should implement a demand-based parking meeting rate structure that provides variable rates informed by observed occupancy rates to achieve one or two open parking spaces per block face throughout the day. The City Council set a maximum rate of $4.00 per hour and a minimum charge of $0.75 per hour. The 2011 Adopted Budget provides SDOT with the resources needed to study and implement this demand-based parking meter rate structure. In addition, in adopting the 2011 budget, the Council also indicated that it was not supportive of extending paid parking to Sundays.

The original proposed budget also assumed a 5% increase in the commercial parking tax (CPT). Council did not enact this increase, resulting in $9.9 million in less revenue for SDOT in 2011 and $10.2 million in 2012 to support services such as emergency response, homeless encampment cleanup, street cleaning, crash cushion and guardrail replacement, freight mobility improvements, and bicycle and pedestrian infrastructure. The loss of this revenue is partially mitigated on a one-time basis by the earlier-than-anticipated imposition of the $20 vehicle license fee (VLF). By implementing the VLF effective, May 1, 2011, the City expects $1.1 million in additional revenues for 2011. In addition, the 2011 Adopted Budget provides SDOT with $2.2 million in additional General Fund support. While these fund help retain a number of important SDOT services, including emergency response, homeless encampment cleanup, and staff support for the South Park Bridge replacement, a number of programs designated to receive increased support in the Mayor's proposed budget are not supported in the adopted budget as a result of not enacting the CPT increase. Funding for these important services will be considered in the context of the Citizens Transportation Advisory Committee (CTAC III), which is charged with a full review of the City's transportation funding system and advising the City and the Seattle Transportation Benefit District (STBD) on prioritizing and funding of transportation projects.

Seattle City Light: The Council made a number of important changes in adopting the Seattle City Light (SCL) budget for 2011. The Council approved the proposed 4.3% increase in electric rates for 2011, but it assumed that the Rate Stabilization Account (RSA) is fully funded at $100 million effective January 1, 2011, and that the RSA surcharge can be removed effective December 31, 2010. Through a series of expenditure reductions, including $1.5 million in savings from the abrogation of 14 vacant positions; reducing the appropriation for distribution right-of-way vegetation management by $1 million; reducing generation facilities maintenance by $1.3 million; and reducing power cost by $9.9 million to reflect reduced I-937 compliance costs and the decision to not exercise power rights on the Priest Rapids project, the adopted budget reduces the 2011 wholesale power revenue projection by $13.7 million. The Council took this action in hopes of reducing the likelihood of the RSA surcharge being reinstated in 2011.[1] The savings assumptions in 2011 are increased and carried forward into 2012 in order to lower the SCL rate increase in 2012 from 4.2% to 3.2%, as adopted by the Council.

Seattle Public Utilities: The Council adopted the proposed Seattle Public Utilities (SPU) budget and proposed Solid Waste and Drainage and Wastewater rates with several changes. The Council added funding from Solid Waste rates for three new programs in support of the City's zero waste goals, including an opt-out registry that would allow residents to opt-out of receiving yellow pages phone books; a pilot program to assess whether every-other-week garbage collection may help advance City recycling goals, save money, and maintain customer satisfaction levels; and universal food and yard waste collection subscription for multi-family dwellings starting in the fall of 2011. Consistent with the 2010 City Auditor's Report on graffiti control in the City, the Council also added resources for enhanced graffiti control and outreach, funded by a 19 cent per ton increase in tonnage taxes, from $8.50 per ton to $8.69 per ton. The budget and CIP assume solid waste rate increases for the average residential customer of 6.3% or $2.05 per month in 2011.

SPU's adopted budget and CIP are supported by rates that assume increases for the average residential customer in 2011 of 13.1% or $2.25 per month in Drainage and 4.1% or $1.92 per month in Wastewater rates, before the effect of King County treatment rate increases that are passed through to Seattle customers. With the effect of King County rate increases, average residential Drainage rates increased by 14.0% or $2.40 per month, while Wastewater rates increased by 14.5% or $6.76 per month.

Cumulative Reserve Subfund: As described above, real estate excise tax (REET) revenue estimates are revised downward from levels assumed in the proposed budget. To account for these changes, the 2011 Adopted Budget incorporates delays and reductions of some REET-supported projects. Net reductions relative to the proposed budget over 2011 and 2012 totaled $150,000 for Seattle Center major maintenance activities and $400,000 for Department of Park and Recreation (DPR) work on ball field lighting replacement and urban forestry. $1.8 million was reduced from Finance and Administrative Services (FAS) support of Americans with Disabilities Act (ADA) facilities improvements, leaving $1.2 million available over the biennium. This FAS program supplements additional ADA-compliant work occurring as part of other city projects. Additionally, $2.6 million in funding for projects in DPR and the Department of Transportation are delayed from 2011 to 2012.

Looking Ahead

Assuming revenue projections hold, the City's 2011 and 2012 budgets are in balance. However, a number of actions taken in adopting the budget, including the use of the $8.5 million loan from MOHAI are one-time in nature that, based on current revenue projections will leave the City's budget out of balance for 2013 and 2014.

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[1] The RSA was enacted by the Council in 2010 to provide SCL with a financial buffer from the volatility in the wholesale power revenue source. If wholesale power revenues fall below the projected projections, SCL can draw on the RSA to sustain its operations. A surcharge of 1.5% is automatically if the value of the RSA falls below $90 million. The surcharge increases automatically in increments of 1.5% for every $10 million change below $90 million, to a maximum of 4.5%.

Based on current projections, the City's General Fund is facing a $6.8 million shortfall in the 2013-2014 biennium.

General Subfund Financial Outlook

Amounts in $1,000s	2010 Revised	2011 Adopted	2012 Endorsed	2013 Projected	2014 Projected
Beginning Unreserved Fund Balance*	(2,424)	100	2,552	251	(4,607)
Total Revenues	897,447	897,416	923,295	955,205	990,258
Total Expenditures and Change in Reserves	(894,923)	(894,964)	(925,596)	(960,063)	(992,485)
Ending Unreserved Fund Balance	100	2,552	251	(4,607)	(6,835)

* Available balance excludes policy reserves

This projected shortfall is in addition to the need to identify funding for necessary capital investments such as the North Precinct and the South Park Bridge, as well as major maintenance obligations.

As a result of these anticipated financial pressures, it is essential that all City departments continue the work begun this year to identify operational efficiencies in order to address these future challenges. Work is underway on many fronts, including reviewing the City personnel system; how human resources functions are delivered across departments; and operational efficiencies and partnership opportunities for the Parks department, just to name a few.

This section describes the 2011-2012 Proposed Budget as transmitted to the City Council from the Executive. This section describes the decision making process used by the Executive and outcomes of that process at a high level. Some of the proposals described here differ from the budget as adopted by the City Council. Significant changes are described in the previous section.

The 2011-2012 Proposed Budget, the first budget prepared under the leadership of Mayor Mike McGinn, totals $3.9 billion, including the City's $888 million General Fund. The budget reflects a new economic reality for the City of Seattle. The City's once healthy General Fund revenue streams have suffered from the turmoil resulting from the longest and deepest recession since the Great Depression. While still growing, revenues are no longer increasing at a rate sufficient to maintain existing services, and most of the one-time strategies used over the past two-years to balance the budget, avoid significant reductions, and sustain services are now exhausted. The result is a $67 million shortfall in the City's General Fund for 2011. In addition, many of the City's non-General Fund departments, including the operating funds of the Department of Planning and Development, the Seattle Department of Transportation, Seattle City Light, and Seattle Public Utilities, are experiencing fiscal stress. In fact, the Mayor's total Proposed Budget for 2011 is only $25 million more than the 2010 Adopted Budget, or 0.6% larger, and the General Fund budget is $13.7 million smaller, a decline of 1.9%.[1]

In the face of these sizable financial challenges, the 2011-2012 Proposed Budget reflects Mayor McGinn's commitment to developing a budget that is aligned with available resources. The Proposed Budget presented in the pages that follow puts the City on a more sustainable path and sets forth a plan to continue transforming City government over the long-term to meet the priorities of Seattle residents – including safe neighborhoods; the availability of a strong safety net for our most vulnerable residents; opportunities for the city's children and youth to thrive and succeed; access to high-quality cultural and recreational opportunities; and an infrastructure system that will support healthy commerce and efficiently carry people, goods, and information into the future.

Closing a $67 million shortfall in the General Fund, as well as addressing the financial challenges of other City funds, requires a number of very difficult decisions. *Nonetheless, the 2011-2012 Proposed Budget contains a balanced set of changes that do not rely on any general tax increases to support on-going operations, nor does the 2011-2012 Proposed Budget draw down the City's General Fund reserves – the Emergency Subfund and the Rainy Day Fund.*[2] Rather, the budget is balanced first and foremost on internal savings and efficiencies, including savings in labor costs and administrative and management overhead costs; a relatively modest set of revenue increases that are targeted toward the users of various services; and, as a last resort, some difficult reductions to direct services.

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[1] The size of the General Fund declines by over $16 million as a result of the creation of an operating fund for the new Department of Finance and Administrative Services. Absent this, the General Fund would have grown by approximately $3 million relative to the 2010 Adopted Budget or an increase of 0.33%.

[2] In fact, the 2011-2012 Proposed Budget increases funding to the Rainy Day Fund by $750,000. Under State law, the City can set aside 37.5 cents per $1,000 of assessed value of property within the city in the Emergency Subfund (ESF). Because assessed values on property are declining, the City, by law must reduce the size of the ESF. The required reduction totals $750,000. Knowing that healthy reserves are critical in times of economic volatility and are essential to preserving the City's AAA bond rating, the 2011-2012 Proposed Budget recommends shifting this money to the Rainy Day Fund, raising the size of the Rainy Day Fund to just over $11 million.

While this budget puts the City of Seattle on a more sustainable financial path, it does not come without consequences. The reductions – to internal operations and to direct services – will result in the elimination of positions, including some layoffs of valuable City employees. The 2011-2012 Proposed Budget eliminates 294 positions (net) or 2.67% of the City's total workforce. Of these positions, 214 are filled and will result in layoffs, effective January 4, 2011. Also, of these total positions, 64 – or nearly 22% – are senior level positions[3] (executives, managers, and strategic advisors), reflecting Mayor McGinn's commitment to streamline the City's management functions.[4]

The Challenge

While not nearly as acute as other local governments nationally and throughout the State of Washington, the City of Seattle's budget – particularly the General Fund – has been suffering from the effects of the Great Recession since 2008. Up to now, the City has largely been able to avoid the more drastic service reductions experienced by other jurisdictions due to four primary factors:

- The Puget Sound region, including the City of Seattle, felt the impacts of the recession slightly later than the rest of the country.

- The City's General Fund revenue base is diversified, drawing resources from four primary sources – property tax (28%); utility tax (19%); business and occupation (B&O) tax (18%); and sales tax (16%). While sales tax and B&O taxes are subject to fluctuations as a result of the economy, property taxes and utility taxes tend to be a bit more stable, acting as a buffer in times of economic decline.[5]

- The City was in a fortunate position of having relatively healthy reserves and fund balances as the economy contracted and revenues faltered. These reserves allowed the City to sustain services that it would otherwise not have been able to maintain with the revenues available[6]. In other words, the level of services the City committed to providing in 2010, go beyond what base revenues can support on an on-going basis.

- The City made widespread use of one-time budget strategies to balance the 2010 Adopted Budget. While the on-going budget challenges persist, the one-time solutions employed in 2010 are largely exhausted. The 2010 Adopted Budget closed a $40 million shortfall in the General Fund[7] using nearly $29 million of one-time budget strategies, including use of the Rainy Fund (described above), other fund balances, and use of one-time debt proceeds to pay for on-going debt service. While this allowed the City to continue to provide valuable services to city residents, the absence of a robust recovery in the growth rate of revenues for 2011 means the City does not have the resources to sustain these service levels. Had the $29 million in one-time budget solutions for 2010 instead been addressed with on-going budget solutions, the City's $67 million General Fund deficit for 2011 would be a more modest $38 million.

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[3] Senior level positions represent approximately 9.5% of the City's total workforce.
[4] In addition, a net 12 positions will be reclassified out of senior level positions into non-senior titles as part of the 2011-2012 Proposed Budget, for a total reduction of 76 senior level positions.
[5] Property tax growth, based on action by the State Legislature in 2007, is capped at 1% plus new construction. Prior to this action, levy growth was capped at 6% plus new construction, providing municipalities an even stronger buffer to the occasional downturns in the more volatile revenue sources, such as the sales tax and B&O tax.
[6] Through prudent financial planning, the City had a Rainy Day Fund at the beginning of 2009 that totaled $30.6 million. The City used $8.9 million of the Rainy Day Fund in 2009 and $11.3 million in 2010, according to the 2010 Adopted Budget, leaving $10.5 million, or approximately 1% of the General Fund, entering into 2011.
[7] In addition to the $40 million shortfall closed in the 2010 Adopted Budget, weak revenue performance as compared to budget forecasts have resulted in the City's 2010 shortfall growing by an additional $20 million subsequent to the budget being adopted. The City closed this mid-year shortfall with a combination of departmental budget reductions, as well as some one-time fund balances.

As economic weakness persists in 2010 and the prospect for the economic recovery in 2011 remains uncertain and likely very modest as compared to typical recoveries, the City's revenue picture is subdued. The City's base General Fund revenues are forecast to grow by a meager 0.7% for 2011 as compared to 2010,[8] only one-tenth of one percent greater than the inflation rate to which most City salaries are pegged.[9] However, a number of costs, such as health care and retirement contribution rates, are growing at a rate that exceeds the average inflation rate. In addition, the many services that were supported in 2010 with one-time funding sources place additional upward pressure on the expenditure side of the equation. Considering all of these variables together, it is clear that the anticipated revenues for 2011 are not sufficient to sustain existing service levels.

Approach to Closing the General Fund Gap

In addressing the General Fund budget shortfall, Mayor McGinn placed a strong emphasis on prioritizing services as he made reduction decisions. In most typical budget reduction exercises, departments are assigned a single reduction target based on an 'across the board' approach (i.e., where every department is expected to propose the same percentage reductions regardless of how essential their services are) or a target that attempts to prioritize services (i.e., public safety receives a lower percentage cut than a service that is considered more discretionary in nature). The Mayor employed a different strategy in building his Proposed Budget. In order to have a more robust conversation about the programmatic trade-offs and priorities in the face of constrained resources, Mayor McGinn assigned target reduction ranges to the City's General Fund-dependent departments, as follows:

Department	Reduction Range
Police & Fire	1.0 - 5.0%
Human Services	5.0 - 10.0%
All Other Agencies	9.5 - 14.5%

Departments were asked to submit the reduction strategies that they would employ to meet both the low and the high reduction targets described above, which provided the Mayor with a broader array of reduction options. From the outset, these reduction ranges placed a higher-priority on public safety functions (e.g., police and fire) and the human services safety net than other City services, as these functional areas were assigned lower reduction targets than other functions in City government. And, in practice, Mayor McGinn's 2011-2012 Proposed Budget reflects these priorities. The 2011-2012 Proposed Budget for police and fire includes reductions of 1.2% and 1.3 % respectively relative to baseline funding levels, while the Human Services Department budget absorbs 5% in reductions. The remaining departments that are subject to reductions[10] include 2011 budget reductions ranging from 8.5% to nearly 22% from baseline funding levels.

In developing strategies to meet these reductions – as well as in addressing the financial challenges facing many of the other City funds – Mayor McGinn set a number of overarching priorities. These priorities include:

- Emphasizing sustainable budget changes that address the shortfall on an on-going basis, as opposed to one-time budget strategies that simply defer the problem into subsequent years.

[8] Growth beyond 2011 is anticipated to improve, but indications are that over the next 4 years average annual growth in tax receipts will be just under 3%. These revenues in previous post-recession expansion periods experienced average annual growth rates of over 6%.
[9] The City uses the annual average growth rate in the CPI-W for the 12 months ending in June each year as the basis for cost of living adjustments in its wage agreements. CPI-W, which measures price changes experienced by urban wage earners and clerical workers in the Seattle metropolitan area, grew by 0.6% for the 12 months ending June 2010.
[10] Some small departments or departments that do not have flexibility with expenditure levels did not receive target reductions, including Criminal Justice Contracting Services, the Civil Service Commission, the Ethics and Elections Commission, Firefighters Pension, Hearing Examiner, Police Relief and Pension, and the Public Safety Civil Service Commission.

- Seeking opportunities for internal and administrative savings in order to preserve direct services. Examples of changes made in the Proposed Budget that fit into this category include, savings in the City's labor costs, consolidation of functions, savings in human resources and information technology functions, and savings in contracting and other non-personnel costs.
- Identifying opportunities to streamline management functions and expanding span of control by eliminating or reclassifying senior-level positions (executives, managers, and strategic advisors).

Even after maximizing savings as described above, reductions to direct services are unavoidable in the face of a $67 million General Fund revenue shortfall. In considering direct service reductions, Mayor McGinn sought changes that would minimize impacts to public safety and to the human services safety net. In addition, he sought to preserve, to the greatest extent possible, programs serving children and youth and providing employment opportunities. He also examined the geographic equity of impacts, as well as the availability of alternate services, in making his decisions. In addition, the Mayor considered the race and social justice impacts of all budget decisions on the community and sought to mitigate those impacts wherever possible. The Mayor's Proposed Budget also preserves existing City programs that support his major initiatives, including the Youth & Families Initiative; the Jobs Initiative; Walk, Bike, Ride; and Sustainable Communities.

Finally, in considering revenue options to address the $67 million shortfall, Mayor McGinn *avoided increases in general taxes to support on-going operations*. The Mayor's Proposed Budget instead targets revenue increases toward users of various City services.

Closing the Gap - Budget Highlights

Maximizing Internal Savings to Preserve Direct Services

The Mayor's first priority in balancing the 2011-2012 Proposed Budget was to maximize internal savings and efficiencies in order to preserve as many direct services as possible. With this objective in mind, the 2011-2012 Proposed Budget employs a number of strategies, as follows:

Reductions to Travel & Training Expenditures: The 2011-2012 Proposed Budget captures savings by eliminating discretionary travel and training. In developing the 2011-2012 Proposed Budget, all travel and training accounts were brought down to zero and departments were required to define and justify their travel and training needs (a zero-based budgeting process). These efforts will allow the City to capture $400,000 in General Fund savings for 2011 and $1.2 million in savings citywide.

Program Consolidations: The City of Seattle provides a diverse array of services that often require the involvement of multiple City departments. In practice, this can result in duplicative or overlapping services. The 2011-2012 Proposed Budget streamlines the provision of some of these services, including the City's tree program and street cleaning.

Currently, the Office of Sustainability and Environment (OSE), the Department of Neighborhoods (DON), Seattle Public Utilities (SPU), and Seattle City Light each play a role in providing tree planting services to Seattle residents. The 2011-2012 Proposed Budget consolidates the OSE and DON portions of the program under the auspices of SPU, improving service delivery and making more effective use of utility funds and the General Fund. This change will provide the urban forestry program with dedicated staffing to better facilitate community engagement with the mission of increasing the city's tree canopy cover. Seattle City Light will continue to contribute to the program, as well.

The 2011-2012 Proposed Budget also seeks to maximize opportunities for the cost-effective improvement of water quality in local bodies of water. Research and analysis shows that street sweeping (in contrast to building and maintaining runoff detention and treatment facilities) is one of the most cost-effective means of keeping pollutants from running off into natural bodies of water. The City of Seattle is under increased pressure to reduce the number of pollutants entering streams, rivers, lakes, and Puget Sound under the requirements of the City's National Pollutant Discharge Elimination System (NPDES) permits. Rather than adding its own street sweeping capacity, SPU will contract with the Seattle Department of Transportation (SDOT) to provide this service.

In addition, the 2011-2012 Proposed Budget takes the final steps in completing the implementation of the newly consolidated Department of Finance and Administrative Services (FAS), which combines the functions of the former Fleets and Facilities Department, the former Department of Executive Administration, portions of the former Department of Finance, and the Customer Service Bureau from the Department of Neighborhoods. This re-organization will allow for the greater utilization of resources; better integration of the City's financial and accounting practices to allow for improved financial oversight; and improved efficiencies in the provision of customer service.

Savings in Overhead Costs: The 2011-2012 Proposed Budget identifies savings in overhead costs, including:

- *Roll Back of Non-Personnel Inflationary Increases:* The City traditionally provides departments with inflationary increases for non-personnel costs. Because inflation rates for 2011 are lower than originally anticipated, the 2011-2012 Proposed Budget rolls back those increases, saving the City in excess $1 million across all funds.

- *Savings on Contract Costs:* The City will also capture additional savings on its contract costs. The newly created Department of Finance and Administrative Services (FAS) has instituted a program to negotiate with existing vendors for rebates, resulting in $75,000 in anticipated savings and more competitive pricing arrangements on citywide contracts. In additional, FAS will re-bid the contract for janitorial and security services, bringing those costs down by an estimated $165,000.

- *Utility Savings:* FAS is adjusting the heating and cooling temperatures in City-operated facilities to capture utility costs savings. In addition, conservation efforts, including the installation of water efficient showerheads and toilets at the City's pools and community centers, installation of more efficient lighting, better calibration of irrigation controls, and the prompt identification of leaks by the Department of Parks and Recreation will generate $244,000 in utility bill savings.

  The City will also be issuing nearly $6 million of debt over the 2011-2012 biennium to fund energy efficiency retrofits of municipal buildings. This will result in reduced operating costs in future years and will help leverage the recently secured $20 million Energy Efficiency and Conservation Block Grant, spurring jobs and growth in this industry.

- *Personnel Reductions:* Due to reductions in the size of the City's fleet and the extension of vehicle lifecycles, FAS will reduce its crew of 74 mechanics by six. FAS will also reduce its crew of seven painters by four. While this may result in delays for cosmetic paint work, safety-related paint jobs, such as signage, will remain a priority.

- *Streamlining Information Technology Staffing*: City departments and the City Budget Office conducted reviews of Information Technology staffing in areas such as Service Desk, Desktop Support, Project Management, Server Support, Application Development, and Web Development. This review included comparisons of industry benchmarks with citywide staffing levels and factored in the relationship to core services and impacts on service to internal City users. This effort results in $1.3 million in citywide savings and a reduction of approximately 16 FTEs.

- *Evaluating Human Resources Services and Reducing Human Resources Staffing Levels:* All City departments were asked to evaluate and describe the rationale for their current human resources staffing levels, as well as the organization of human resources staffing within their departments. These staffing levels were compared to industry benchmarks. Where outliers were identified, the departments were asked to explore reductions. The 2011-2012 Proposed Budget reduces 16 FTE in the area of human resources services, for savings of $1.43 million citywide.

- *Savings in the Executive Offices and the Legislative Branch:* Recognizing that all functions of City government must make changes to help offset the funding shortfalls that threaten direct services, the 2011-2012 Proposed Budget assumes that the collective Executive offices[11] and the Council functions will generate savings to meet the 9.5% low-end target for non-public safety/non-human services functions. While the work to manage City government does not decrease in times of fiscal distress – in fact, it often increases – it is essential that these functions also identify savings in order to preserve direct services for the residents of Seattle.

Streamlining Management Functions and Expanding Span of Control: The 2011-2012 Proposed Budget reflects the results of a number of proactive steps taken by the Executive Branch during 2010 to streamline management functions and expand spans of control to improve the efficiency of City government and capture budget savings. The City Budget Office, in conjunction with departments, conducted a review of all senior-level and supervisory positions to identify opportunities for reductions or reclassifications. In addition, the City Budget Office met with representatives from the City's labor unions to solicit their input on opportunities for improvements. Collectively, this work translates into a number of position reductions and savings opportunities for the 2011-2012 Proposed Budget, including the net elimination of 64 senior level positions and the net downward reclassification of 12 senior level positions, for a total of 76 positions. This represents a reduction in these classifications of 6.14%.

Capturing Savings in Labor Costs: City employees have historically shown a willingness to make sacrifices in order to save the City money and to preserve direct services. In 2010, a majority of the City's employees agreed to furlough. In addition, the City's Labor Management Healthcare Committee continues to identify opportunities for savings in the City's healthcare costs through adjustments to health insurance plan design, specifically in those areas that help manage plan utilization. The 2011-2012 Proposed Budget reflects this continued commitment on the part of City employees to make changes in their compensation to save the City money. First, the 2011-2012 Proposed Budget assumes that incumbents in all discretionary pay bands (including strategic advisors, managers, executives, and information technology professionals) will receive no market rate salary increase for 2011 (effectively a salary freeze). Depending on the specific employee group, this represents the second or third year that many of these employees will not receive market rate salary adjustments. For 2011, this decision will save the City's General Fund $700,000 and the City's non-General Funds $1.5 million.

Second, the Mayor and City Council are engaged in talks with the Coalition of City Labor Unions (Coalition) to identify mechanisms for reducing labor costs. Under a tentative agreement reached with the Coalition, the current 2% cost of living increase floor would be reduced to 0% through 2013 and cost of living increases would be tied to actual inflation as measured by the Consumer Price Index (CPI). For 2011, the CPI rate is 0.6%, or 1.4% lower than the existing 2% floor. If the tentative agreement is approved by the Coalition of City Union membership, this new arrangement will allow the City to save $2.3 million in the General Fund and $3.4 million in the non-General Funds. The agreement affects 6,000 City employees. If the agreement is not successfully ratified by the second week in October, the Mayor will submit additional budget reductions to the City Council in order to balance the budget.

Because on-going salary savings are captured from the changes described above, and because furloughs only generate one-time savings, the 2011-2012 Proposed Budget does not rely on widespread furloughs. Most departments and employees will not furlough in 2011. However, staff in the Executive Offices will participate in limited furloughs to generate additional one-time savings in addition to the market rate adjustment salary changes described above. The Law Department also plans on furloughing employees in 2011. In total, these furloughs will save the City nearly $742,000 in 2011.

[11] These offices include the Mayor's Office, the City Budget Office, the Office of Intergovernmental Relations, the Office of Sustainability & Environment, the Office of Economic Development, and the Office of Civil Rights.

Finally, the 2011-2012 Proposed Budget captures $1.4 million in savings as a result of a salary freeze for members of the firefighters and fire chiefs' union in the Seattle Fire Department. These savings are described in greater detail in the public safety section of the budget overview.

Prioritizing Public Safety

The 2011-2012 Proposed Budget places a high priority on funding for the City's traditional public safety functions – the Seattle Police Department (SPD) and the Seattle Fire Department (SFD). *In fact, this program area is the only operational program in the General Fund that is actually seeing expenditure increases in 2011 from 2010 levels. SPD will have an all-time high of 585 sworn officers assigned to patrol in 2011, up from the current record-high levels of 555 officers in 2010. And, SFD will maintain the current firefighting strength of 990 active personnel and make no reductions to companies assigned to neighborhood fire stations.*

GENERAL FUND PROGRAMMATIC EXPENDITURES ($1,000s)

	2010 Adopted	2011 Proposed	Change
Arts, Culture & Recreation	$146,507	$141,573	($4,933)
Health and Human Services	$52,519	$51,445	($1,075)
Neighborhoods & Development	$31,959	$28,375	($3,584)
Public Safety	$508,635	$515,559	$6,924
Utilities and Transportation	$39,993	$37,460	($2,533)
Administration (1)	$114,548	$100,883	($13,665)

(1) Former Dept. of Executive Admin., Customer Service Bureau, and portion of former Dept. of Finance moved from the GF to FAS in 2011.

That said, the 2011-2012 Proposed Budget includes reductions for the police and fire functions. In identifying these reductions, emphasis was placed on preserving the highest priority direct services.

Police: The 2011-2012 Proposed Budget for SPD achieves savings to the General Fund primarily by not hiring and adding the 62 additional patrol officers that the City of Seattle had contemplated adding between 2010 and 2012, in support of the Neighborhood Policing Plan (NPP), saving the City $4.2 million in 2011 and $6.5 million in 2012. The NPP was adopted by the City of Seattle in 2007. The plan seeks to improve response times for high-priority emergency calls to seven minutes or less, a commonly accepted response time for police forces in larger cities; allocate more on-duty time for patrol officers to engage in problem-solving activities; and to have ten additional 'back-up' police vehicles citywide available at all times. One of the key inputs required to achieve these objectives, as identified in the 2007 plan, was the addition of 154 new patrol officers over an eight year period (2005 – 2012), assuming the City's budget remained healthy enough to support the expansion.[12] To date, SPD has hired 91 NPP officers (the 2005 – 2009 increases) and is already meeting many of the goals set forth under NPP. In fact, SPD's average response time for emergency calls is 6 minutes in 2010, as compared with 6 minutes and 30 seconds in 2009.

The Proposed Budget mitigates the impact of the decision to suspend the implementation of the additional officers called for under the NPP by redeploying to patrol 30 officers currently performing other non-patrol functions, such as traffic enforcement, investigations, mounted patrol, homeland security, as well as officers staffing the desks at precinct stations during the evenings and weekends. This allows SPD to increase the number of sworn officers assigned to patrol from the current record-high levels of 555 to a new record-high level of 585. The functions identified for redeployment were selected because they are either performing lower-priority work, such as traffic enforcement, the precinct desk officers and the mounted patrol unit, or because of decreased workload in

[12] *The Neighborhood Policing Staffing Plan: 2008 – 2012* notes on page 23, "The initiative's goal is to achieve its hiring targets in five years, but we recognize that budget realities may force a delay in the plan. If economic growth slows … then the timeline for implementing the hiring targets will be extended. The extension would be for as short a period as affordable, but would not extend the initiative beyond ten years."

functions such as the detectives, homeland security officers, and the officers assigned to perform background examinations of prospective hires. Even with these proactive steps, SPD is continuing to develop additional options to meet the performance goals established by the NPP as the City continues to face the prospect of constrained resources.

Fire: By emphasizing internal and management efficiencies, SFD's 2011-2012 Proposed Budget maintains the City's on-duty firefighting strength and makes no operational reductions to neighborhood fire stations. The largest source of budget savings in the SFD budget is salary savings resulting from existing labor agreements with the Firefighters' Union, Local 27 and the Fire Chiefs' Union, Local 2898 to lower the minimum cost of living adjustment from a more traditional 2% floor to a 0% floor. Because the Consumer Price Index (CPI) rate to which salary increases for Local 27 and Local 2898 are contractually tied is below zero[13] for 2011, Local 27 and Local 2898 members will receive a 0% cost of living adjustment for 2011, saving the City $1.4 million from what had been projected in the baseline budget. This is the second year in a row that members of Local 27 and Local 2898 will forego cost of living increases as a result of their contracts. Collectively, this has allowed the City to avoid nearly $7 million in costs over the past two years[14] and to preserve more direct services.

In addition, SFD will capture overtime savings in 2011 by modifying its training delivery methods. On-duty personnel will conduct some of SFD's training activities, while still remaining in compliance with federal, state, and local training mandates. SFD will also capture management-level savings by reducing the minimum on-duty staffing level by one Battalion Chief, allowing it to avoid approximately 255 overtime shifts each year. To achieve these savings, SFD will reassign the administrative duties of Battalion Chief 2 to the Deputy Chief of Operations. The four remaining Battalion Chiefs, the Safety Chief, and the Deputy Chief of Operations will continue to provide oversight and direction of all emergency operations citywide.

Safe Communities Require More Than Police & Fire Services

The 2011-2012 Proposed Budget recognizes that maintaining safe and healthy neighborhoods extends beyond maintaining the City's police and fire services. Services provided by Human Service Department; the Department of Parks and Recreation; and the Seattle Public Library are also essential in offering residents – particularly children and youth – opportunities to thrive. In addition, the Department of Neighborhoods brings City services to the neighborhoods where people live and work, creating additional access to City government.

Human Services Department: The 2011-2012 Proposed Budget for the Human Services Department (HSD) captures reductions totaling 5%. By capturing savings in overhead costs and curtailing inflationary increases, *HSD is able to preserve funding for most contracts with community partners who deliver the actual services.* This is especially critical in these difficult economic times. While HSD's budget is composed of approximately 20% administrative expenses and 80% programmatic expenses, nearly 50% of the reductions included in the 2011-2012 Proposed Budget are administrative in nature, including reductions in HSD's finance and human resources functions. HSD captures $721,000 in savings by forgoing inflationary increases on its contracts with community partners – holding 2011 contract costs at the 2010 levels. In the few cases where direct services are reduced, HSD used the following criteria:

- Programs that are of a lower priority based on HSD's Strategic Investment Plan, which focuses on meeting the basic needs of the most vulnerable people in our community. For example, Community Crime Prevention programs, which provide support to crime prevention councils, conduct trainings for landlords on crime prevention, and sponsor crime prevention events, are reduced by 15%.

- Programs where outcome measures suggest limited effectiveness. For example, in the Domestic Violence

[13] Unlike the Coalition of City Labor Unions contracts, the labor contracts with the Local 27 and Local 2898 tie cost of living increases to the June-over-June CPI-W. The June-over-June CPI-W used to build the 2011 budget was (0.1%), resulting in these members receiving the 0% floor for their cost of living adjustment.
[14] As compared to the existing terms of most other city labor contracts.

and Sexual Assault Prevention division, the Proposed Budget eliminates funding for subsidies that reduce the fee charged to low-income batterers who are mandated to attend batterers' intervention programs. This change was identified because there are unclear results on the success of the programs.

- Where opportunities exist for administrative efficiencies and consolidation within funded programs. For example, the budget proposes a consolidation of two agencies that provide organizational support to food banks and meal programs. This consolidation will eliminate duplicate services and create efficiencies in service to the City's network of emergency food providers.

- Where opportunities exist for alternative funding or other mitigating factors. For example, funding for the Indoor Air Quality program, which evaluates home environments for people with asthma, is eliminated because King County has recently received a grant to do similar work. Similarly, funding for a drop-in day program for seniors is eliminated in recognition of the fact that a community center with similar programming exists close by.

Department of Parks and Recreation: The City's Department of Parks and Recreation also plays a vital role in providing all residents – but especially children and youth – a safe and healthy environment to play, exercise, and grow. A vibrant parks system is important in creating active and safe neighborhood gathering spaces. Unfortunately, Parks continues to struggle with the challenge of maintaining the City's parks facilities. Over the years, Parks has been charged with maintaining a growing number of parks facilities, while the funding available to support these activities has not kept pace. The 2011-2012 Proposed Budget makes no exception to this trend. Relative to the costs required to maintain current service levels plus the cost of new park facilities, the Parks Department will absorb $8.1 million in reductions. To preserve direct services and access to facilities, Mayor McGinn focused on reducing administrative and maintenance costs, enhancing partnerships with community groups, and a re-aligning the Parks fee structure. *These efforts are largely successful in that the 2011-2012 Proposed Budget preserves funding to keep swimming pools open*[15] *and lifeguards at all of the City's public beaches. In addition, Parks will continue to operate 15 of the 22 wading pools located throughout the city. And, 20 community centers will provide the same operating hours as in 2010.* Nonetheless, the 2011-2012 Proposed Budget includes some very difficult decisions related to reduced programming and hours of operations at some Parks facilities.

In identifying direct service reductions for Parks, Mayor McGinn used the following criteria:

- Preserve programming for children and youth
- Preserve services for those residents with the fewest options for obtaining alternate parks and recreation services
- Preserve geographic equity in the availability of services

Services being reduced or eliminated in the 2011-2012 Proposed Budget include:

- **Wading Pools:** The 2010 mid-year budget reductions to Parks closed seven wading pools and reduced operating hours for 10, while five wading pools remained open seven days a week. The 2011-2012 Proposed Budget assumes the same operating capacity for 2011 as was offered in 2010. Wading pools at Green Lake, Lincoln, Magnuson, Van Asselt, and Volunteer Park will be open seven days a week in the summer months. Wading pools at South Park, East Queen Anne, Cal Anderson, Dahl, Delridge, Wallingford, Hiawatha, Bitter Lake, E.C. Hughes, and Sound View Parks will be open three days a week. Wading pools at Ravenna, Beacon Hill, Powell Barnett, Peppi's Playground, View Ridge, Gilman, and Sandel Parks will remain closed in 2011.

[15] The one exception is the Rainier Beach pool, which will close temporarily in 2011 to allow the City to remodel the pool – a commitment made to the community in the 2010 Adopted Budget.

- **Community Centers:** The 2011-2012 Proposed Budget makes the difficult decision to limit the use of six community centers. The Rainier Beach Community Center and Pool will temporarily close for two years to allow for construction of a new community center and pool – a commitment made to the community in the 2010 Adopted Budget. The facility is expected to re-open in 2013.

  Five other community centers – Alki, Ballard, Laurelhurst, Queen Anne, and Green Lake will have reduced operating capacity. The drop-in hours for Alki, Ballard, and Laurelhurst will be reduced from 53 hours per week during the school year and 46 hours per week in the summer to 15-20 hours per week year round. These three sites were selected because other nearby community centers are available, and the three offer less programming relative to other community centers. To mitigate the impacts of the reduced hours, Parks will partner with the Associated Recreation Council (ARC), the non-profit organization that is responsible for providing childcare and recreational classes and programming at community centers, to play a more active role in maintaining services at these facilities. For example, ARC will continue to operate the childcare and pre-school programs currently offered at the Alki and Ballard community centers.

  The programming and availability at the Queen Anne Community Center will change in 2011 to welcome a new temporary partnership with BizKid$, a national public television series for children that focuses on financial literacy, entrepreneurship, and life skills. BizKid$ will use the Queen Anne Community Center gym as a production studio until at least the end of 2011 and provide the City additional revenue. While the Queen Anne Community Center will continue to provide significant programming in the upper portion of the community center including childcare, preschool, and senior adult activities, the gym will be closed. Staff will be reduced commensurate with the space reduction. To mitigate the impacts of the loss of the gym space, Parks will maintain some staffing for teen program development and continue its partnership with the Community Learning Center at McClure Middle School.

  The functionality of the Green Lake Community Center will also be transformed in 2011. The Museum of History and Industry (MOHAI) will occupy the Lake Union Armory resulting in the closure of the Armory as MOHAI begins construction in 2011 to renovate the building. Due to the transfer to MOHAI, Parks, Seattle Parks Foundation, and ARC staff that currently work in the Armory will be permanently relocated. These staff will be dispersed to other Parks facilities, including the Green Lake Community Center. To make room for the staff, the Green Lake Community Center will offer reduced public drop-in access to the gym. In addition, DPR will create a Visitor's Center for Green Lake Park and a one-stop location for event and athletic field scheduling at the Green Lake Community Center.

  While the 2011-2012 Proposed Budget reduces access to six community centers, funding for the remaining 20 community centers – Bitter Lake, Delridge, Garfield, Hiawatha, High Point, International District /Chinatown, Jefferson, Loyal Heights, Magnolia, Magnuson, Meadowbrook, Miller, Montlake, Northgate, Rainier, Ravenna-Eckstein, South Park, Southwest, Van Asselt, and Yesler Community Centers – will continue in 2011 and 2012, offering residents access to a wide variety of recreational opportunities.

- **Green Lake and Mount Baker Small Craft Centers:** The 2011-2012 Proposed Budget begins to transition the operations of the Rowing and Sailing Centers at Green Lake and Mount Baker to a self-sufficient program operated by ARC. Beginning in 2011, the full-time Recreation Leader at each site is abrogated, and a part-time Recreation Attendant is added at each site. Hours of operation are reduced to approximately three hours per day, Monday through Friday, and some changes in programming will occur. Due to the reduction staff and their availability to assist in a boating emergency, the boating programs will be required to operate as ‘paired programs’ to meet minimum safety standards. The popular afterschool program for teens will continue, but fees will increase. In addition, ARC will increase its contribution to Parks and pay for some program related expenses. These changes in programming and operations will keep both centers open and operating

- **Environmental Learning Centers:** The 2011-2012 Proposed Budget also reduces funding for public programs at the Environmental Learning Centers (ELCs), which includes nature walks and treks, bird programs, and beach/tideland programs. In keeping with the Mayor's commitment to preserve programs focused on children and youth, Parks will continue to provide school-based programs that offer field trip programming for school-aged children to learn about nature and the environment. ARC will still run the Nature Day Camps and the Nature Preschool (day care) at the Discovery Park ELC. The Carkeek ELC will be available for rentals only. However, it will still offer the Seattle Public Utilities-funded Salmon & School Program.

The 2011-2012 Proposed Budget initiates an agreement between the Office of Arts and Cultural Affairs (OACA) and the Parks Department to use existing admissions tax resources that were dedicated to the Arts Account in the 2010 Adopted Budget to fund arts programming currently offered by Parks, including downtown parks arts programming, outdoor neighborhood parks activation projects, and the Langston Hughes Performing Arts Center operations. This will ensure the continuation of a wide variety of public arts experiences throughout the city while relieving pressure on the General Fund. These programs include concerts, art installations, street performers, ballroom dancing, performing arts training, and music exploration opportunities. These programs are designed to serve all ages and ethnic groups, and to make City parks creative, fun community spaces. They particularly emphasize youth involvement and the transformation of young lives through art. They also emphasize activation of open space to create safe and vibrant gathering areas for neighborhoods.

Seattle Public Library: The Seattle Public Library's 2011-2012 Proposed Budget assumes 8.5% in reductions from status quo levels and modest revenue enhancements for 2011, yet *preserves all current service hours*. The Library accomplishes this primarily by consolidating the management of branch libraries. The branch libraries are currently overseen by three regional managers and 13 branch manager and assistant manager pairs who each supervise two branches. In 2011, the branch manager classification will be eliminated. Three regional managers will be added, for a total of six regional managers who will be based at a branch and oversee four-to-five branches within a region. Six additional assistant managers will be added – for a total of 19 – to coordinate building operations.

The Library will also convert eight of its smallest, lower-utilized branches into 'circulating' libraries and reduce on-site librarian services. These branches – Delridge, Fremont, International District/Chinatown, Madrona-Sally Goldmark, Montlake, New Holly, South Park, and Wallingford – will continue to be open 35 hours per week and serve as a 'gateway' to the resources of the entire library system. These branches will offer collections, holds-pickup, and computer access. Access to specialized reference or collection services will be provided on-line or by telephone access to staff at the Central Library. Programming will be primarily focused on youth and provided by librarians from other locations.

Finally, the 2011-2012 Proposed Budget assumes the one-week system-wide closure (the week before Labor Day) that was first instituted in 2009 will continue in 2011. And, the budget reduces the Library's collection budget by $700,000, leaving $5 million available to purchase new materials. The impact of this reduction may be mitigated on a one-time basis through private donations to the Library.

Department of Neighborhoods: The Department of Neighborhoods (DON) plays an important role in connecting residents to City services. DON's 13 Neighborhood Service Centers (NSCs), which are geographically dispersed throughout the City, provide information about City services and coordination with Neighborhood District Councils, and support the community in resolving a range of issues related to public safety, human services, and housing. In addition, seven of the NSCs also function as payment and information centers offering residents a location to pay City Light and Seattle Public Utility bills, obtain pet licenses, pay traffic tickets, apply for U.S. passports, or to find information about City services and jobs. Each of the 13 NSCs is staffed by a Neighborhood District Coordinator, with the payment sites also staffed by customer service representatives. From a financial standpoint, the payment and information centers generate enough revenue to cover approximately 70% of their operating costs. The six non-payment sites do not generate any revenues and are supported entirely by the General Fund.

The 2011-2012 Proposed Budget closes of all six non-payment Neighborhood Service Centers and the West Seattle payment and information center. These nonpayment sites were selected for closure because they offer a more limited range of services than do the payment sites. The West Seattle site was selected for closure because the building lease expires at the end of 2010, and DON plans to consolidate services with the nearby Delridge Service Center. The remaining six payment sites (Delridge, University District, Central District, Lake City, Southeast, and Ballard), which are geographically spread throughout the city, will continue to provide access to City services for residents in the neighborhoods in which they live and work, allowing them to avoid trips to the City's downtown campus.

The facility closures will allow DON to eliminate six Neighborhood District Coordinator positions and one Customer Service Representative position. The staffing reductions will support a reorganization of the District Coordinators by assigning them to larger areas of the city using the remaining Neighborhood Service Center locations. This change creates an efficient management model that will ensure that core services are still provided to the public. These core services include the continued role of the Neighborhood District Coordinators as liaisons between neighborhoods and City departments.

Increasing Revenues

The 2011-2012 Proposed Budget does not assume any increases in general taxes (i.e. property, sales, B&O and utility[16] taxes) to support on-going operations. The budget does, however, rely on increases in revenues tied to utilization of services provided by the City, including increases in parking meter rates and hours to better cover costs to the City to regulate parking, enhancements to the City's parking scofflaw program, and increases to enhance cost recovery rates on a variety of user fees. Collectively, these revenue strategies will raise approximately $23 million to offset the City's $67 million General Fund shortfall.

In addition to these General Fund revenue increases, the 2011-2012 Proposed Budget assumes increases in the City's commercial parking tax and the imposition of a $20 vehicle licensing fee to address funding challenges in SDOT. These proposed revenues and the programs they support are described in the SDOT section of this overview. The 2011-2012 Proposed Budget also includes increases in rates for Seattle City Light and the Solid Waste and Drainage and Wastewater utilities, which are also described later.

While always difficult to raise revenues – especially in times of economic hardship – these rate increases targeted users of City services will help offset the need for additional reductions in service.

Parking Meter Revenue: The 2011-2012 Proposed Budget makes several changes in the City's management and regulation of on-street parking, including increasing the hourly rate on parking meters by $1.50 downtown and $0.50 in other parts of the city, extending paid parking hours by two hours until 8 p.m. in the evenings (Monday – Saturday), and instituting paid parking on Sundays (11 a.m. – 6 p.m.). These adjustments in the management and regulation of on-street parking are recommended for several reasons. First, the increases better align the charges with the costs to the City to regulate and manage the parking program. Second, the increase brings parking meter rates in line with the current market rates for parking in private garages. Third, the existence of market rate prices for parking will better encourage turnover of parking spaces so that people can find a parking spot when they need one, thereby encouraging residents to frequent commercial districts and reducing congestion and carbon emissions. These proposed changes to the City's parking meter program will generate $6.6 million in net revenue to the City.

Enhanced Parking Scofflaw Program: For 2011, the City will implement a new parking scofflaw program that will improve collection of outstanding traffic fines from people who have four or more outstanding parking violations. There are more than 27,000 vehicles with four or more outstanding parking violations, totaling more

[16] Water utility tax rates will actually be 4.3 percentage points lower in 2011 than in 2010, as a result of the December 31, 2010, elimination of the temporary tax rate increase enacted in February 2009 in response to *Lane v. City of Seattle.*

than $15 million in outstanding charges due to the City, not including interest. Currently, the City impounds scofflaw vehicles. To retrieve their scofflaw vehicle, drivers must go to the impound lot. But, the impound lot operators are not required to actually collect on the outstanding parking tickets prior to releasing the vehicle. Rather, the driver of the scofflaw vehicle is only required to pay the towing and impound fees. As such, the City's current program offers limited incentives and consequences for actually resolving the underlying scofflaw offense. Under the new program, scofflaw vehicles will be affixed with an immobilizing boot that cannot be removed until the driver makes arrangements to pay the defaulted parking violations. As part of the program rollout, the City will publicize the opportunity for scofflaws to arrange to make payments on their defaulted violations. This program is expected to generate gross revenues of $1.9 million for the General Fund in 2011 and $2.4 million in gross revenues for 2012. These revenues are partially offset by some additional increased operational costs in the Seattle Police Department, the Seattle Municipal Court, and the Seattle Department of Transportation.

Increased Fees: Finally, the 2011-2012 Proposed Budget increases a variety of fees for service to better align the amount charged with market rates and/or the actual costs of delivering the service. A sampling of some of the fee changes is included below:

- **FAS:** FAS will increase the cat license fee in 2011. The current fee structure has been in place since 2003. The fee for altered cats will increase from $15 to $20 and the fee for unaltered cats will increase from $20 to $30. FAS will also restructure the driver-for-hire license fee and will levy a $50 charge on taxi drivers who have dual King County/City of Seattle licenses. Previously taxi drivers were not required to pay the City for dual licenses. Drivers licensed only in Seattle, who make up less than 1% of all licensed drivers, will see their fee reduced from $75 to $50.

- **Library:** The Library will increase the daily fine rate on a variety of loaned materials including print materials, DVDs, inter-library loans, and reference materials. The Library will also increase the fees for patrons to print from Library computers. Additionally, the Library will authorize its collection recovery agency to send fine notices to parents of juveniles under the age of 13 who owe fines. Collectively, these measures will generate $650,000 in revenue.

- **Police:** The Seattle Police Department will increase the fee charged to alarm companies who request a police response based on a false alarm. The purpose of this increase is twofold. First, SPD is attempting to reduce the number of false alarms as these responses constitute a large drain on available officers to respond to true emergencies. Given that the current percentage of alarms that are false is 97%, there is much room for improvement. Second, SPD is attempting to recoup a greater percentage of its costs related to responding to false alarms.

- **Fire:** To maintain historical cost recovery rates for billable services, the Seattle Fire Department will implement fee increases of 10% to 15% for permits, conducting certification examinations for fire protection systems and code compliance inspections when multiple re-inspections are required. Additionally, a new $10 reporting fee for processing required fire protection system confidence testing documentation is applied. The increased fees will generate approximately $586,000 for the General Fund and will bring Fire Prevention Division fees to a 75% cost recovery rate, consistent with previous practices.

- **Seattle Municipal Court:** The Seattle Municipal Court will generate additional revenue in 2011 through a variety of changes to its fee structure. First, the Court will continue a number of fee increases it implemented in mid-2010, including an increase from $1 to $3 to handle credit card payments made via the Internet (there is no charge for payments sent in by U.S. mail or made in-person); an increase from $100 to $122 in the administrative fee for deferred findings; and a $10 fee to set up time-payment plans. In 2011, the Court will increase revenue collections by working with its collection agency, Alliance One, to process a large volume of garnishments for people who have past due fines. The Court will also increase the monthly probation fee from $20 to $25. Lastly, the Court will increase revenue collections related to red light camera violations. Collectively, these increases will generate $1.2 million in revenue.

- **Parks and Recreation:** The 2011-2012 Proposed Budget assumes $1 million in new revenue from increases in Parks fees and charges. The updated fees and charges set in this budget are based on Parks' new fees and charges policy, which seeks to align fees with the cost of providing the service. Higher percentage costs are charged where benefits of the service accrue primarily to the individual and a lower percentage where society also benefits. In addition to considering the cost of providing a service, Parks analyzed comparable fees charged by other public agencies and recreation service providers. As a result of this analysis, the following fees are increased in the 2011-2012 Proposed Budget: Japanese Garden, Camp Long, Amy Yee Tennis Center, swimming pools, athletic fields, boat ramps, community meeting rooms and gymnasiums, special events - ceremonies, picnics, and the Langston Hughes Performing Arts. A new fee for plan review is also proposed.

Non-General Funds

The City's General Fund is not the only City fund that is experiencing budget challenges. Several other City funds are also struggling to maintain services in an environment of constrained resources, including the Department of Planning and Development, Seattle Public Utilities, Seattle City Light, and the Seattle Department of Transportation.

Seattle Department of Transportation: The Seattle Department of Transportation (SDOT) budget is facing the dual challenge of reductions to its General Fund base of approximately $40.1 million, as well as its non-General Fund resources, including gas tax revenues. These funding constraints come at the same time that SDOT is attempting to overcome a long-standing backlog of maintenance and upgrades of the City's $13 billion worth of transportation infrastructure, as well as plan a transportation system that is capable of moving people and goods to support the economic health of the City.

In 2006, Seattle voters approved a nine-year, $365 million levy for transportation maintenance and improvements known as *Bridging the Gap* (BTG). Included in the BTG initiative were funds provided by a commercial parking tax, and an 'employee hours' or 'head' tax, which the City repealed in 2009. BTG is on track to accomplish the project list approved by voters, including the repair and paving of streets, seismic upgrades to vulnerable bridges, improvements to pedestrian and bicycle safety and creation of safe routes to schools, and enhancements to the speed and reliability of transit in the city.

However, the base funding – General Fund and state gas tax revenues – that BTG was designed to augment have eroded during the same period of time, causing SDOT to again face a growing backlog. Excluding BTG, SDOT's general transportation base funding is 7% below 1996 levels, after adjusting for inflation. For 2011, SDOT's budget addresses a $5.8 million reduction in General Fund support, as well as a $3.3 million gap in its non-General Fund sources. In preparing the 2011-2012 Proposed Budget, Mayor McGinn seeks to address SDOT's immediate funding challenges, as well as identifying funding to continue efforts to develop a transportation system that meets future demands, including those priorities and investments identified in the Pedestrian Master Plan and the Bicycle Master Plan.

The 2011-2012 Proposed Budget for SDOT relies on several strategies to meet these objectives. The first strategy includes maximizing resources available for direct service by implementing internal efficiencies and controlling costs. Reductions are taken in SDOT's travel and training, temporary staffing, and professional services funding. Workloads are consolidated, allowing for staffing reductions, and redundant and non-core administrative and planning functions are eliminated. Savings are also achieved by reducing the number of managers and supervisory positions, and policy and planning positions, freeing up resources for direct service.

The second strategy includes reducing programmatic costs where possible and prudent, including deferring some maintenance; using alternative and more cost-effective methods to deliver service; and reductions in deliverables. As an example, cost savings are achieved through continuing the strategy developed in mid-2010 of lengthening the target response time for SDOT to respond and fill a pothole from 48 to 72 hours. While this delay will impact street users, it is offset by a pothole repair technique that results in a patch lasting four times as long as the quick fix method. A longer wait time for road-users to see potholes repaired is offset by cost savings in the short- and long-term, as these potholes are less likely to reoccur or reoccur with less frequency. Funding for signage repair and vegetation control is also reduced. These are impacts that will be noticed by residents, but create savings that help to address funding shortfalls, and allow redirecting resources to other priorities.

Another approach includes identifying areas in which user fees could be enhanced to improve cost-recovery or to better manage City assets. This includes an increase in the cost of Restricted Parking Zone permits and Right-of-Way permits, improving cost-recovery. The hourly rate for on-street parking is increased, moving the level closer to market rate, and the number of hours regulated are expanded. The new parking scofflaw program will increase the City's ability to manage the right-of-way by increasing compliance with regulations.

The next step was to identify additional reductions that would be necessary to bring spending in line with available resources. The required reductions would have degraded core services and programs, including street surface repairs, freight spot improvements, landscape maintenance and the transportation demand management program. Because funding for these purposes was in many cases already below sustainable levels, these potential reductions were not aligned with the Mayor's goals to promote environmental sustainability and support economic vitality. Funding would have been insufficient for acceptable progress to be made on projects in the Pedestrian and Bicycle Master Plans, and on infrastructure projects that support transit, and the maintenance backlog would grow at a faster pace, resulting in increased costs in future years.

The Mayor's 2011-2012 Proposed Budget prioritizes sufficient investment in the City's transportation system. The budget includes additional transportation-dedicated funding via a 5% increase in the Commercial Parking Tax. In addition, the Proposed Budget presumes the establishment of a $20 vehicle license fee by the newly created Seattle Transportation Benefit District (STBD), which was formed by Council ordinance under authority provided by the Washington State Legislature.[17] These are modest revenues compared to the need, estimated to generate $13.4 million in 2011, but are derived from sources tied to users of the system and begin to address some more of the funding gap.

New revenue will support core services, such as major maintenance of Seattle streets and rights-of-way and emergency response activities. These proposals allow SDOT to meet its statutory obligations and comply with new federal storm water code requirements, and also provide a means for the City to meet its pledge to King County of funding $15 million for the South Park Bridge replacement project. Additional funds are directed towards increasing the number of small-scale freight mobility improvements.

This revenue will also be used to complete the next Transit Master Plan, which will allow the City to improve decision-making on how and where to make transportation investments. Funding is provided to accelerate implementation of the Pedestrian and Bicycle Master Plans and fully fund the Linden Avenue North Complete Streets project. Funding is also directed to the Neighborhood Streets Funds large projects program so that more high-scoring community identified projects can be completed.

The budget includes an additional 2.5% increase in the Commercial Parking Tax to fund two years of the City's obligations related to the Alaskan Way Viaduct and Seawall Replacement Program. Additional funding sources will be needed as early as 2013 to support future spending on this program. The Mayor continues to recommend a bond levy to secure full funding for replacement of the Seawall.

[17] City Council Resolution 31240 notes, "The STBD will consider imposing a twenty-dollar annual vehicle license fee to support preservation and maintenance of the City transportation system and to enhance pedestrian and bicycle mobility."

Department of Planning and Development: The Department of Planning and Development (DPD) is responsible for land use and building regulations in the city, as well as long-range planning functions. It draws most of its funding from land use and building permit fees. Its code compliance and planning functions are primarily supported by General Fund dollars. Like the Seattle Department of Transportation, DPD's budget is struggling with the dual impacts of declines in its non-General Fund revenues sources as well as reductions in the support it receives from the General Fund. While the General Fund reductions are not insignificant, the more challenging problem for DPD is the severe decline in construction activity in the city and the resulting impacts on the level of permit revenues. As of August 2010, the volume of incoming building permits was approximately 30% lower than the peak of development activity in 2007. Meanwhile, permit values – which drive revenues – are approximately 50% lower. Since 2007, DPD's building and land use revenues are down 49%, and revenues are anticipated to be relatively flat moving forward.

In response to these challenges, DPD is initiating another round of mid-year reductions effective October 2010. These mid-year reductions are reflected in the 2011-2012 Proposed Budget and will result in the unfunding of an additional 42 positions, including 19 positions in Construction Permit Services, 12 positions in Land Use Services, five positions in Construction Inspections, four positions in Department Leadership, and two positions in Planning Services. These are in addition to the 11 position reductions being made to help balance the General Fund budget. Since 2007, DPD has abrogated or unfunded 155 positions, including the reduction or reclassification into lower job titles of 21 executives, managers, supervisors and strategic advisor positions. While DPD's workload is down, these position reductions will nonetheless impact service levels, including longer wait-times for intake appointments; reduced hours of operation for the Applicant Service Center; delays in processing applications; and longer plan and permit review times. In all cases, DPD will strive to minimize disruption of service levels and effects on service quality.

Seattle City Light: The Seattle City Light (SCL) budget is under stress following two consecutive years of extremely weak performance in its wholesale hydroelectric power revenues. In a typical year, City Light sells surplus hydroelectric power generated in the winter and spring, and purchases additional power to supplement its lower power generation capacity in the summer and fall. This 'power shaping' strategy allows City Light to respond to seasonal swings in supply and demand. And, the revenue generated through this mechanism allows City Light to charge ratepayers lower rates. Unfortunately, unexpectedly depressed energy prices in 2009 and unusually low precipitation levels in 2010 have meant that City Light has received substantially lower amounts of wholesale power revenue than it had assumed in its 2009 and 2010 budgets. For 2009, net wholesale revenue was lower by $74 million, or 52%, than what was assumed in the budget. For 2010, the actual wholesale revenues are projected to be $50.9 million, or 58% below what was assumed in the budget. In response to these significant shortfalls, City Light has made reductions to its operating and capital programs, including the substantial deferral of maintenance, over the past two years. Unfortunately, many of these actions are not sustainable.

The 2011-2012 Proposed Budget reverses these trends by restoring operational and capital funding to more sustainable levels, while adequately responding to regulatory requirements. To do this, the Proposed Budget anticipates a rate increase of 4.3% in 2011 and 4.2% in 2012, and reflects the creation of the Rate Stabilization Account in 2010 to mitigate future risks to wholesale revenue.

The 2011-2012 Proposed Budget also captures savings to keep rate increases to a minimum. City Light will realize $22 million of debt service savings in 2011 as a result of a favorable refinancing of outstanding debt in 2010. Seattle City Light is also capturing internal and management savings for 2011. City Light will continue to scale-back public tours of its Skagit facilities and will realize savings by reducing its reliance on consultants for policy analysis and strategic planning and its travel and training expenditures. The City Light budget also eliminates 16.6 vacant FTEs (including 7.0 FTE management-level positions) and downgrades an additional 5.0 FTE management-level positions to control costs, address span-of-control issues, and reduce the budgeted vacancy rate.

Seattle Public Utilities: Seattle Public Utilities (SPU), which oversees three utilities – Solid Waste, Water, and Drainage & Wastewater – is also feeling the effects of the recession. Revenues for all three utilities have come in below projections as a result of lower-than-anticipated water use and a greater-than-anticipated reduction in the amount of garbage requiring collection. The impacts of lower than expected revenue are compounded by the fact that SPU is also addressing the challenges of an aging infrastructure – the majority of which was built prior to 1970 – and increased expenditure obligations as a result of more stringent federal and state regulatory requirements, such as the National Pollutant Discharge Elimination System. Collectively, these factors put upward pressure on SPU rates, at a time when SPU customers are feeling the effects of the sluggish economy, creating an extra incentive to keep rate increase as low as possible.

The 2011-2012 Proposed Budget includes a significant number of operations and maintenance expenditure reductions and limits the number of new projects to primarily fund cost increases in core services and to respond to regulatory requirements. During development of the 2011-2012 Proposed Budget, SPU reviewed operations to streamline the delivery of services and identified efficiencies that allow SPU to eliminate 37 FTE, including 15.5 FTE in manager and strategic advisor classifications, without suspending any programs. While these reductions are an essential response to the utility's financial position, they will result in several lay-offs. SPU has not had to lay off employees in recent memory. Even with these proactive steps, SPU's budget assumes a series of rate increases for 2011, as follows:

- **Solid Waste:** The budget for the Solid Waste Fund assumes a rate increase of 7.5% for 2011. The 2011-2012 rate proposal for Solid Waste is currently being considered by the City Council.

- **Drainage & Wastewater:** The budget for the drainage utility assumes a 2011 rate increase of 12.8%, or about $2.19 per month for an average household. The wastewater utility assumes a 2011 rate increase of 4%, or about $1.87 per month for an average household, not including an anticipated pass through from King County for wastewater treatment costs that is historically considered by Council outside of the budget process. The 2011-2012 rate proposals for the drainage and wastewater utilities are currently being considered by the City Council.

- **Water:** The 2011-2012 Proposed Budget for the Water Fund assumes a rate increase of approximately 3.5%. This is the net impact of the existing rate adopted by the City Council in 2008 as well as the elimination of the temporary surcharge on water rates that the City implemented as a result of the *Lane v. City of Seattle* court case concerning fire hydrants.

Looking Ahead

By making tough decisions that focus on ongoing budget changes, Mayor McGinn's 2011-2012 Proposed Budget makes significant strides toward putting the City's services and finances on a more sustainable path. Assuming the economic and revenue forecasts hold, reductions and revenue changes assumed for the General Fund in 2011 will be sufficient to maintain a balanced budget for 2012 without additional reductions. For the first time, the City's 2011-2012 Proposed Budget includes a snapshot[18] of the City's financial health through the end of the next biennium (2014). Current projections suggest that while there may be some room for marginal funding increases in 2013, the City of Seattle is likely not going to see significant room for program expansion in the near-term. This represents a new financial challenge for the City of Seattle relative to the previous two post-recession expansion periods in 1995-2000 and 2003-2007. The City's tax revenues experienced 7.2% and 6.3% average annual growth respectively in the 1995-2000 and 2003-2007 periods. In contrast, projections for the 2010-2014 period are for only 2.9% average annual growth in tax revenues. Current revenue projections through 2014

[18] These financial snapshots are commonly referred to as a financial plan. The City Budget Office developed financial plans for most City funds as part of the 2011-2012 Proposed Budget. The financial plans depict revenues, expenditures, reserves, and fund balances for the last year (2009), the current year (2010), and four years into the future (2011-2014), and provide a tool to monitor the financial health of the City's funds.

suggest that the City's overall General Fund revenues will grow at less than 4% year over year between 2012 and 2014.

Amounts in $1,000s	2010 Revised	2011 Proposed	2012 Proposed	2013 Projected	2014 Projected
Beginning Unreserved Fund Balance*	(2,424)	468	19	43	289
Total Revenues	899,138	891,749	926,993	959,816	995,003
Total Expenditures and Change in Reserves	(896,246)	(892,199)	(926,968)	(959,570)	(992,038)
Ending Unreserved Fund Balance	468	19	43	289	3,255
*Available balance excludes policy reserves					

While certainly an improvement over the past couple of years, the anticipated revenue trends over the next four years are likely not sufficient to maintain the current mix of City services *and* address many of the 'looming budget issues' – cost obligations that the City anticipates – that are on the horizon.

Early into the 2011-2012 budget process, the City Budget Office conducted a survey of all City departments in an effort to catalog anticipated costs obligations that are likely to require funding. The list of obligations is numerous.[19] As a snapshot, some of these potential obligations include:

- **Asset Preservation:** The City has a relatively long-standing policy that sets as a high priority on the preservation of capital assets. The City has recently deferred these types of investments, particularly as Real Estate Excise Tax (REET) revenues have contracted. City Council Resolutions 31083 and 31203 establish funding targets to guide the City's funding levels for asset preservation. The policies establish a citywide target of asset preservation spending for non-utility and non-transportation assets of $48 million (2011 dollars), of which $31 million or 65% is intended to come from the Cumulative Reserve Subfund (CRS). Weak REET revenues in the 2010 Adopted Budget left insufficient funds to achieve minimum target funding levels as established by these policies. As the City's financial challenges persist, the trend continues for 2011, with the City investing over $19 million in asset preservation from the CRS, and $40 million citywide, for non-utility and non-transportation work. As the City's finances recover from the Great Recession, restoring the commitment to investing in asset preservation should be a priority.

- **Strategic Capital Agenda:** The City has a sizable backlog of capital needs ranging from major infrastructure investments, such as the Seawall, to public safety facilities, such as the Police Department's North Precinct and the Fire Department's Headquarters, to quality of life and civic amenities, such as the Rainier Beach Community Center and the Seattle Center Master Plan. A preliminary assessment of a relatively small subset of capital projects as part of the first phase on the on-going strategic capital

[19] In addition to the 'looming budget issues', the future health of the City's budget could be impacted by the outcome of the November election. Initiative 1107, if approved, would repeal the sales tax on candy, gum and bottled water, and could result in the loss of $1.2 million in City sales tax revenue in 2011, followed by $1.7 million in 2012. Initiatives 1100 and 1105, if approved, would allow for the privatization of liquor sales in the State of Washington. Passage of these initiatives could result in the loss of $2-4 million in City revenue in 2011, followed by a $4-7 million loss in 2012. On the other hand, if the King County sales tax initiative, which would increase sales tax by 0.2%, is approved, the City can expect $8.7 million in additional sales tax revenue in 2011, followed by $12.1 million in 2012. Finally, over the course of 2010, projections for the likelihood of a double-dip recession have increased. If this were to materialize, the City of Seattle could see revenues drop by an additional $12.7 million in 2011 and $28.2 million in 2012. The City Budget Office is closely monitoring these variables.

agenda[20] identified potential costs over the next five years ranging between $319 and $604 million. Meanwhile the City, based on maintaining current debt-to-budget ratios and continuing to adhere to its debt policies, is only expected to have debt service capacity sufficient to support $190 million worth of councilmanic capital investments. Additional debt capacity may be obtained with voter approval or through the identification of pledged revenues to repay debt.

The 2011-2012 Proposed Budget takes the first steps toward funding some of these capital needs – including the Rainier Beach Community Center and the first phases of the replacement of the North Precinct. But, beyond these projects, there is clearly an imbalance in the level of need as compared to the resources available. In the coming months and years, the Executive and Legislative branches will need to work together to prioritize needs, reduce costs, and potentially identify additional funding sources to meet these needs. Completing the strategic capital agenda is a priority for the coming year.

- **Healthcare Costs:** Healthcare costs continue to rise for the City of Seattle and around the country at rates that significantly outpace inflation. Bringing cost growth under control is a key long-term fiscal strategy for both the City and employees. The City will work with employees to identify strategies that will help mitigate cost growth in future years.

- **Retirement Costs:** The Seattle City Employees' Retirement System suffered significant investment losses in the recent recession, as did other public and private investment pools. While the system has ample funds to cover anticipated payments over the next many years, it is now underfunded from a long-term view, and steps must be taken to strengthen the system. The Retirement Board will undertake a study to evaluate investment strategies and decision- making procedures to protect against future losses and maximize returns. The City and employees will also increase contributions into the system to provide additional funding of the plan. The City will continue to monitor the fiscal health of the system and will make future adjustments as necessary to ensure its long-term viability.

- **Technology Upgrades:** The City has a number of aging technology systems that are in need of replacement or upgrade, including the City's accounting system, Summit, and the caseload management system used by Seattle Municipal Court, MCIS. Replacement costs for these systems could cost the City millions.

- **Obligations under the Americans with Disabilities Act:** In 2011, the City anticipates reaching agreement with the Department of Justice (DOJ) over a review of the City's compliance with the Americans with Disabilities Act (ADA). While the City is largely in compliance, there are some facilities that the DOJ has identified that need to be updated or modified to conform to ADA standards. In addition, the City will be undertaking a survey of its facilities to assess their compliance with the ADA. The 2011-2012 Proposed Budget begins to address these costs, but additional costs are anticipated in the years to come.

- **Reserves:** Healthy financial reserves are a cornerstone of prudent financial management. The City of Seattle maintains two financial reserves for general government spending – the Emergency Subfund and the Revenue Stabilization Account (aka Rainy Day Fund). The Emergency Subfund is available to pay for unanticipated expenses that may occur in a fiscal year in response to an emergency (e.g., earthquake). The Rainy Day Fund is available to maintain City spending in the event of a sudden and unanticipated drop in revenues due to economic conditions or other factors. Over the past two years, the City has drawn down substantial portions of the Rainy Day fund in response to weak revenues and to avoid making deep cuts. The Rainy Day Fund totaled $30 million at the beginning of 2009. The 2010 Adopted Budget

[20] See the Strategic Capital Agenda Presentation to the City Council. July 6, 2010. http://www.seattle.gov/financedepartment/documents/2010-07-06CapitalPresentationFINAL.pdf

leaves $10.5 million in the reserve by the end of 2010.[21] Understanding that healthy reserves are critical in times of economic volatility and essential to preserving the City's AAA bond rating, the 2011-2012 Proposed Budget recommends fully maintaining these reserves. By State law, the Emergency Subfund cannot exceed 37.5 cents per $1,000 of assessed property value within the City. Because assessed property values in the City are declining, the City must reduce the size of the Emergency Subfund. Due to this, the 2011-2012 Proposed Budget transfers $750,000 from the Emergency Subfund to the Rainy Day Fund to bring the total value of the Rainy Day Fund to just over $11 million, and results in the full preservation of these crucial reserves. In addition to taking this proactive step for 2011, it is important that the City look for opportunities as the economy recovers to build the value of the Rainy Day Fund.

- **Long-Term Funding for Parks:** While Seattle voters have consistently chosen to expand their parks and recreation system, it relies primarily on the General Fund to support on-going operations and maintenance. Since 2002, General Fund support has not kept pace with the growing operations and maintenance costs of the City's parks system. Unfortunately, the current economic turmoil means that 2011 is no exception to this trend. In fact, with reductions to Parks maintenance functions, the challenges grow with the 2011-2012 Proposed Budget. As the economy recovers and the City's funding situation improves, addressing the long-standing funding imbalances in Parks is a top priority. In the meantime, the City will continue to explore opportunities to make creative use of existing resources, building on what is done with Arts funding in the 2011-2012 Proposed Budget, and to explore opportunities for non-traditional funding sources and increased opportunities to form partnerships with community service providers. To demonstrate the City's commitment to this, staffing in Parks for 2011 is dedicated to developing these opportunities. In addition, the City will continue working with members of the community to develop options to allow the City's parks systems to flourish.

- **Public Safety:** Public safety extends beyond traditional police services. Rather investments in services such as parks, libraries, and the safety net – particularly those services that target children and youth and provide employment opportunities for residents – are also key elements to maintaining public safety. This commitment is reflected in the decisions in the 2011-2012 Proposed Budget. But, more work is needed. In 2011, the Seattle Police Department will continue to develop options for meeting the outcome goals of the Neighborhood Policing Plan. In addition, the Human Services Department will be exploring in 2011 opportunities to streamline its contracts, as well as improve the measurement of performance outcomes in an effort to maximize the City's human services investments.

- **Other Personnel-Related Costs:** As the City addresses these 'looming budget issues' and identifies additional efficiencies and strategies to realign funding, two personnel-related issues rise to the top as requiring attention – the first is the City's classification system and the second is the delivery of human resources services in the City. As the City downsizes the workforce, it is clear that the current classification system covering discretionary pay bands (executive, strategic advisor, manager, and IT professional), which has been in place for nearly a decade, is due for an evaluation. The system has never been evaluated to determine whether they still meet the City's classification and compensation needs. As the City's workforce needs evolve under more constrained revenues, it is time to examine whether the current classification system best meets the workforce needs of the City. The 2011-2012 Proposed Budget assumes that a review of the classification system will begin in 2011.

  In addition, work done in 2010 to review how the City provides human resources services throughout the City suggests that additional work is needed in this area to determine whether there are additional opportunities to streamline the provision of these services. The 2010 human resources review was completed by the City Budget Office, and was undertaken in part in response to a 2010 Statement of Legislative Intent 117-1-A-1. The goal of the study was to identify best practices to most effectively and

[21] The 2010 Proposed Budget actually contemplated drawing down the Rainy Day Fund even further to approximately $5 million. The City Council, in adopting the 2010 budget, restored approximately $5 million to the fund.

efficiently provide human resources services to the City and its employees, and evaluate the division of roles between the Personnel Department and human resources staff in other City departments. The study found that in most cases, the role of the Personnel Department and the department human resources units are separate and distinct, and there are many areas in which dual staffing is effective both in departments and in the Personnel Department (such as labor relations). Several areas were identified for potential increased centralization, including benefits (communications and employee assistance) and training. Hiring and safety have potential for increased centralization; however, these two areas need more study. The Executive is continuing to review the recommendations of this report, and will work with the new Personnel Director, once approved, to implement these changes.

The 2011-2012 Proposed Budget begins making efforts to meet many of the City's future expenditure obligations and operational challenges. But, more work is needed to identify funding options to meet these obligations, as well as to sustain current services. As the City looks at a future with more subdued revenue growth, meeting these obligations will require added fiscal oversight, monitoring, and creativity to ensure that the City is delivering services in a cost-effective manner. In other words, as the City prepares for the fiscal reality of the coming years, the 2011-2012 Proposed Budget is only the beginning of a longer-term transformation of City government.

RESOURCES SUMMARY BY SOURCE
(in thousands of dollars)*

TOTAL CITY RESOURCES

Revenue Source	2009 Actual	2010 Adopted	2010 Revised	2011 Adopted	2012 Endorsed
Taxes, Levies & Bonds	1,064,225	1,231,099	1,099,668	1,122,171	1,127,488
Licenses, Permits, Fines & Fees	148,292	154,025	151,753	169,840	176,004
Interest Earnings	10,902	18,077	11,693	10,934	17,346
Revenue from Other Public Entities	163,097	190,818	219,156	224,143	208,508
Service Charges & Reimbursements	1,008,844	1,242,821	1,251,865	1,317,952	1,408,981
All Else	724,960	531,625	525,245	554,234	571,862
Total: Revenue & Other Financing Sources	**$3,120,320**	**$3,368,465**	**$3,259,379**	**$3,399,274**	**$3,510,188**
Interfund Transfers	670,637	573,313	615,631	532,187	549,102
Use of (Contribution To) Fund Balance	445,986	253,622	394,395	337,148	304,449
Total, City Resources	**$4,236,942**	**$4,195,400**	**$4,269,405**	**$4,268,609**	**$4,363,740**

*Totals may not add due to rounding. Total city resources do not equal total city expenditures due to some interfund transfers not accounted for in the expenditures table.

EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2010 Adopted General Subfund	2010 Adopted Total Funds	2011 Adopted General Subfund	2011 Adopted Total Funds	2012 Endorsed General Subfund	2012 Endorsed Total Funds
Arts, Culture & Recreation						
Office of Arts and Cultural Affairs[1]	0	6,434	0	7,116	0	7,290
The Seattle Public Library[2]	49,205	50,970	47,519	50,373	48,850	51,612
Department of Parks and Recreation	84,244	149,108	80,057	166,567	84,136	142,896
Seattle Center	13,057	37,770	13,229	38,334	13,305	35,238
SubTotal	**146,507**	**244,282**	**140,805**	**262,390**	**146,291**	**237,037**
Health & Human Services						
Community Development Block Grant	0	14,000	0	13,641	0	13,641
Educational and Developmental Services Levy	0	17,972	0	17,887	0	17,931
Human Services Department	52,519	147,807	51,963	136,920	52,122	134,831
SubTotal	**52,519**	**179,778**	**51,963**	**168,448**	**52,122**	**166,402**
Neighborhoods & Development						
Office of Economic Development	6,179	6,179	6,339	6,339	5,875	5,875
Office of Housing	672	44,885	520	39,739	629	38,840
Department of Neighborhoods[3]	11,764	11,764	10,167	10,167	10,411	10,411
Neighborhood Matching Subfund	3,354	3,692	2,939	3,249	2,995	3,309
Department of Planning and Development	9,991	60,558	9,120	50,277	9,301	51,046
SubTotal	**31,959**	**127,078**	**29,086**	**109,771**	**29,211**	**109,482**
Public Safety						
Criminal Justice Contracted Services	23,902	23,902	24,375	24,375	27,742	27,742
Fire Facilities Fund	0	3,830	0	5,874	0	9,232
Firemen's Pension	17,531	21,243	17,759	20,143	19,919	20,785
Law Department	18,226	18,226	18,369	18,369	18,850	18,850
Police Relief and Pension	22,302	22,362	22,255	23,028	22,191	22,331
Public Safety Civil Service Commission	142	142	149	149	152	152
Seattle Fire Department	156,983	156,983	158,587	158,587	162,014	162,014
Seattle Municipal Court	26,736	26,736	26,107	26,107	26,585	26,585
Seattle Police Department	242,814	242,814	249,295	249,295	254,911	254,911
SubTotal	**508,635**	**516,238**	**516,897**	**525,928**	**532,364**	**542,603**
Utilities & Transportation						
Seattle City Light	0	1,089,616	0	1,073,167	0	1,140,876
Seattle Public Utilities	1,351	817,200	1,224	822,902	1,254	851,458
Seattle Transportation	38,641	310,198	38,914	306,398	40,023	309,635
SubTotal	**39,993**	**2,217,013**	**40,138**	**2,202,466**	**41,277**	**2,301,970**

Department	2010 Adopted General Subfund	2010 Adopted Total Funds	2011 Adopted General Subfund	2011 Adopted Total Funds	2012 Endorsed General Subfund	2012 Endorsed Total Funds
Administration						
Civil Service Commission	221	221	233	233	238	238
Department of Executive Administration(3)	33,092	33,092	0	0	0	0
City Budget Office(3)	0	0	4,012	4,012	4,132	4,132
Department of Finance(3)	5,110	5,110	0	0	0	0
Department of Information Technology	2,664	56,404	4,274	48,918	4,338	48,938
Employees' Retirement System	0	11,911	0	11,760	0	11,894
Ethics and Elections Commission	611	611	687	687	655	655
Finance General	34,636	34,636	37,801	37,801	40,204	40,204
Fleets and Facilities Department(3)	2,909	132,322	0	0	0	0
Finance and Administrative Services(3)(4)	0	0	20,866	162,166	21,112	185,606
Legislative Department	12,183	12,183	11,542	11,542	11,866	11,866
Office of City Auditor	1,168	1,168	1,072	1,072	1,098	1,098
Office of Hearing Examiner	556	556	571	571	585	585
Office of Intergovernmental Relations	2,117	2,117	2,016	2,016	2,071	2,071
Office of Sustainability and Environment	1,416	1,416	1,267	1,267	1,308	1,308
Office of the Mayor	3,692	3,692	3,456	3,456	3,516	3,516
Personnel Compensation Trust Subfunds	0	177,419	0	188,191	0	200,771
Personnel Department	11,919	11,919	11,549	11,549	11,620	11,620
Seattle Office for Civil Rights	2,254	2,254	2,226	2,226	2,248	2,248
SubTotal	**114,548**	**487,031**	**101,571**	**487,466**	**104,991**	**526,750**
Funds, Subfunds and Other						
Bonds Debt Service(5)	10,076	29,793	11,152	32,392	13,677	32,227
Cumulative Reserve Subfund(6)	0	24,629	750	45,931	600	29,902
Emergency Subfund	0	0	0	750	0	100
Judgment/Claims Subfund	1,319	18,819	1,191	26,435	1,191	17,830
Parking Garage Fund	0	7,603	0	7,842	0	8,093
SubTotal	**11,394**	**80,843**	**13,093**	**113,350**	**15,468**	**88,152**
Grand Total*	**905,555**	**3,852,264**	**893,551**	**3,869,819**	**921,724**	**3,972,395**

*Totals may not add due to rounding

Notes:

(1) Includes a dedicated amount based on receipts from Admission Tax.
(2) Includes General Subfund subsidy to Capital Improvement Projects.
(3) Under the reorganization of several city functions proposed for 2011 and 2012, the former Department of Finance, Department of Executive Administration, Fleets and Facilities Department, and a portion of the Department of Neighborhoods are reflected in the City Budget Office and Finance and Administrative Services.
(4) The amounts in the "Total Funds" column include appropriations from the Asset Preservation Subfund.
(5) The amounts in the "Total Funds" column reflect the combination of the General Subfund Limited Tax General Obligation (LTGO) bond debt obligation and the Unlimited Tax General Obligation (UTGO) bond debt obligation. Resources to pay LTGO debt payments from non-General Subfund sources are appropriated directly in operating funds.
(6) This amount does not include the Cumulative Reserve Subfund-supported appropriations for Seattle Department of Transportation (SDOT) because they are included in the SDOT appropriations, and does not include appropriations from the Asset Preservation Subfund because they are included in the Finance and Administrative Services appropriations.

City Revenue Sources

City Revenue Sources and Fund Accounting System

The City of Seattle expends $3.9 billion (Proposed 2011) annually on services and programs for Seattle residents. State law authorizes the City to raise revenues to support these expenditures. There are four main sources of revenues. First, taxes, license fees, and fines support activities typically associated with City government, such as police and fire services, parks, and libraries. Second, certain City activities are partially or completely supported by fees for services, regulatory fees, or dedicated property tax levies. Examples of City activities funded in-whole or in-part with fees include certain facilities at the Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to customers for services provided. Finally, grant revenues from private, state, or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

The City accounts for all revenues and expenditures within a system of accounting entities called "funds" or "subfunds." The City maintains dozens of funds and subfunds. The use of multiple funds is necessary to ensure compliance with state budget and accounting rules, and is desirable to promote accountability for specific projects or activities. For example**,** the City of Seattle has a legal obligation to ensure revenues from utility use charges are spent on costs specifically associated with providing utility services. As a result, each of the City-operated utilities has its own fund. For similar reasons, expenditures of revenues from the City's Families and Education Property Tax Levy are accounted for in the Educational and Development Services Fund. As a matter of policy, several City departments have separate funds or subfunds. For example, the operating revenues and expenditures for the City's parks are accounted for in the Park and Recreation Fund. The City also maintains separate funds for debt service and capital projects, as well as pension trust funds, including the Employees' Retirement Fund, the Firefighters Pension Fund, and the Police Relief and Pension Fund. The City holds these funds in a trustee capacity, or as an agent, for current and former City employees.

The City's primary fund is the General Fund. The majority of resources for services typically associated with the City, such as police and fire or libraries and parks are received into and spent from one of two subfunds of the City's General Fund: the General Subfund for operating resources (comparable to the "General Fund" in budgets prior to 1996) and the Cumulative Reserve Subfund for capital resources.

All City revenue sources are directly or indirectly affected by the performance of the local, regional, national, and even international economies. For example, revenue collections from sales, business and occupation, and utility taxes, which together account for 53.3% of General Subfund revenue, fluctuate significantly as economic conditions affecting personal income, construction, wholesale and retail sales, and other factors in the Puget Sound region, change. The following sections describe the current outlook for the local and national economies, and present greater detail on forecasts for revenues supporting the General Subfund, Cumulative Reserve Subfund, and the Transportation Fund.

The National and Local Economy, September 2010

National Economic Conditions and Outlook

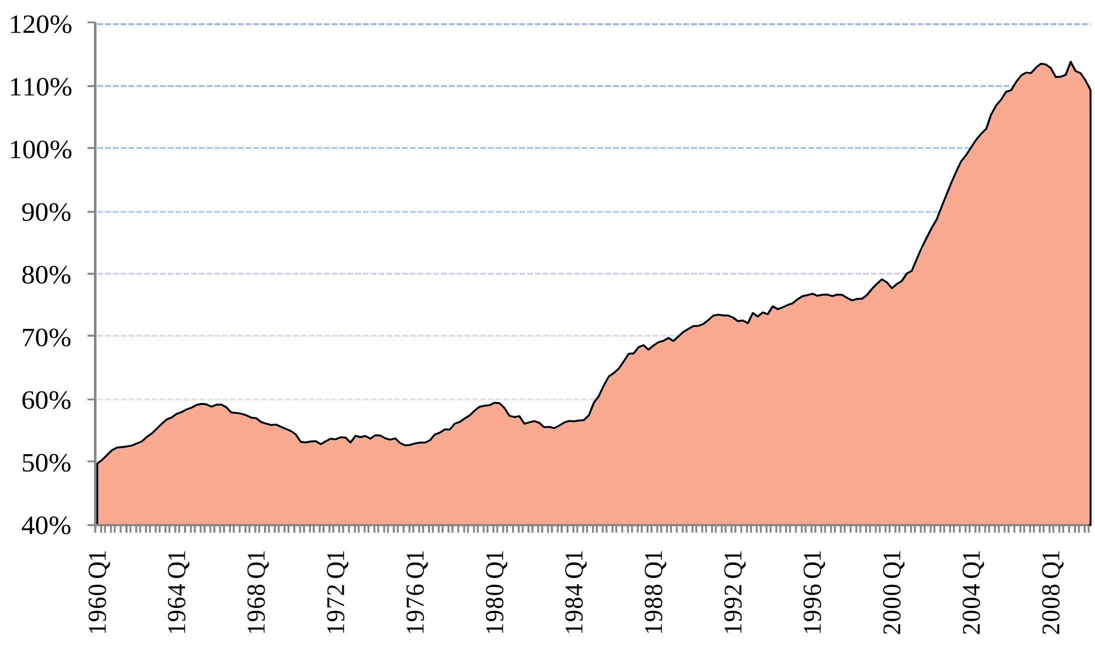
A look back at the roots of the recent recession. Now that the 2007-2009 recession is over, economists are trying to discern how the recovery will unfold. To better understand where the economy is headed, it is helpful to look back and review the events that brought about the worst downturn since the Great Depression.

We can trace the roots of the current recession back to the early 1980s when, in reaction to the high inflation of the 1970s, investors developed a preference for assets, such as stocks and real estate, because they were less vulnerable to erosion by inflation than other types of investments. The early 1980s was also when the federal government began running large budget deficits on an ongoing basis, which has resulted in a buildup in federal government debt. In addition, the movement to deregulate financial markets got its start in the early 1980s.

The early 1980s ushered in a 25 year period characterized by stable economic conditions and low inflation that is sometimes called the "great moderation." Inflation was low in part because the integration of China and other developing countries into the world economy helped to hold down the price of goods and, to a lesser extent, services. With inflation under control, the Federal Reserve was able to keep interest rates at relatively low levels. In addition, a surplus of savings in many developing countries provided a large pool of money available for investment.

A stable economy made investors feel confident and optimistic, which, combined with an abundance of cheap money, led to excessive borrowing and risk taking and a huge buildup in U.S. household debt (see Figure 1). A lot of the borrowed money was used to purchase assets, which pushed up the price of those assets and eventually led to the buildup of asset bubbles. These bubbles included the housing bubble of the late 1980s, the stock market bubble of the late 1990s, and, biggest of all, the housing bubble of 1998-2006. During the past decade, we also saw bubbles in energy, food, and other commodities, as well as housing bubbles in numerous countries across the globe.

Figure 1. U.S. Household Debt as a Share of Personal Income



Source: Federal Reserve Board, U.S. Bureau of Economic Analysis.

With asset prices rising, Americans cut back on saving and increased their spending, driving the expansion of the world economy. Eventually housing prices rose to a level that could not be sustained, even with exotic mortgage products, and prices began to fall. The collapse of the housing bubble triggered the financial crisis which, in turn, precipitated the worldwide recession. While the housing bubble was the trigger for the downturn, many economists believe the root cause of the financial crisis was the large imbalances in savings and borrowing that had built up between nations.

The preceding review of the roots of the recession has a number of implications for the recovery:

- The problems developed over a 25-year time period, so the return to normalcy will not occur quickly.

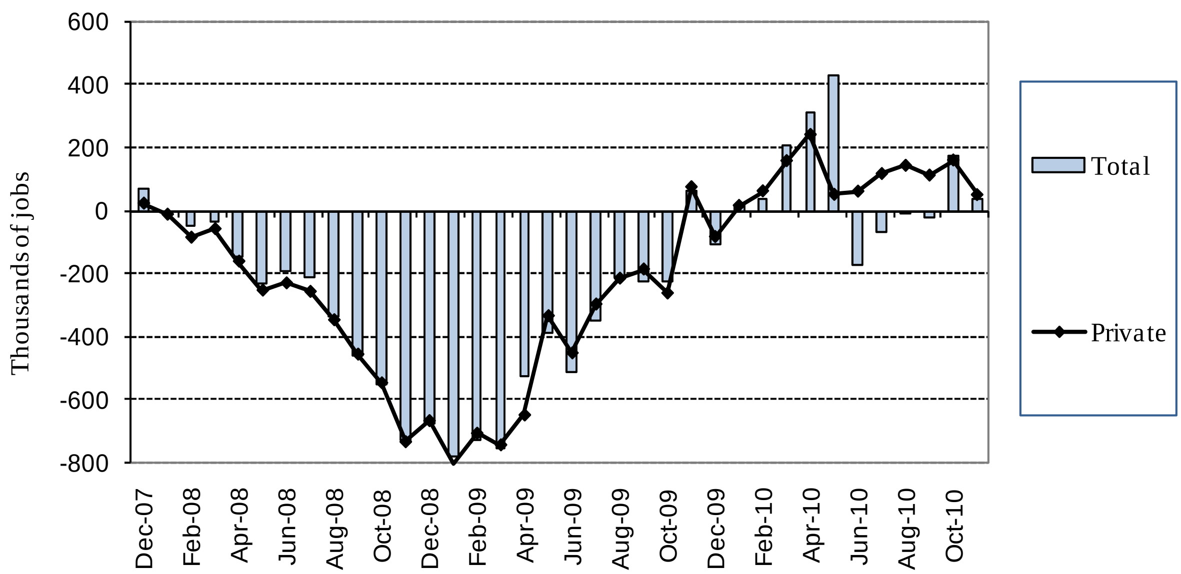
- The roots of the downturn are global in nature, which means policy changes are needed in many nations to bring the world economy back into balance.
- The current recession is unlike other postwar recessions, so we do not have a roadmap for recovery.
- The federal government must unwind its interventions in the economy. If this is not executed well, there is the potential to disrupt the recovery or ignite inflation.
- To have a sustained recovery, the federal government must get its budget deficit under control.
- Consumer spending will be restrained by the need to reduce debt and increase savings.

The recovery has been subdued and uneven thus far. The recession ended in June 2009, 18 months after it started, making it the longest recession in the post war period. By most measures, the recession was the worst since the Great Depression. Real Gross Domestic Product (GDP) declined by 4.1% over a period of six quarters, 8.4 million jobs, representing 6.1% of total jobs, were lost, and the unemployment rate rose to a peak of 10.1%.

In its early stages, the recovery received a boost from inventory rebuilding and a buildup in fiscal stimulus spending. However, in the second quarter of 2010, the economy lost momentum as inventory rebuilding slowed and stimulus spending began to plateau. Also weighing on the economy in the second quarter was the emergence of the European fiscal crisis, in particular the Greek sovereign debt crisis. This increased volatility in the financial markets and reduced growth prospects for Eurozone countries, thus reducing export prospects for U.S. firms. A bailout of Greece put together by the European Union and International Monetary Fund stabilized the situation.

The slowing of the economy is evident in the job market. With recent public sector employment figures distorted by Census-related hiring and layoffs, trends can be discerned best by focusing on private sector employment. Private employment accelerated from January through April, but has weakened since then; with employment gains averaging 99,000 per month over the past seven months (see Figure 2). GDP, which has now grown for five successive quarters, increased at a 2.5% annualized growth rate in the third quarter of 2010, up from 1.7% in the second quarter.

Figure 2. Monthly Change in U.S. Employment



Data are seasonally adjusted. Source: U.S. Bureau of Labor Statistics.

Growth will remain subdued through mid-2011, after which a gradual acceleration is expected. History tells us that recessions caused by financial crises are followed by weak recoveries, and the current recovery is unlikely to be an exception. Despite the improvements in the financial markets, credit remains tight and consumers are under stress due to large declines in wealth, a very weak job market, and sluggish income growth. In addition, the housing market has deteriorated following the expiration of the second homebuyers' tax credit at the end of April.

With the economy having picked-up a bit in recent months following a midyear slowdown, forecasters have modestly raised their expectations of future economic growth. Current expectations are for growth to remain subdued through mid-2011, followed by a strengthening in the second half of 2011 and 2012, led by continued strong business investment and a gradual improvement in consumer spending. Households have been making progress in reducing their debt loads and increasing their savings. As that process continues, households should begin to feel more comfortable with their finances and gradually begin to save less and spend more.

The risk of a double-dip recession has diminished in recent months. With the economy stabilizing a bit in recent months, the risk of a double-dip recession has receded somewhat. In its November forecast, Global Insight lowered its estimate of the probability of a double-dip recession occurring from 25% to 20%. A double-dip recession would result largely from the inability of the private sector to sustain the recovery as the boost to growth from the inventory buildup and the federal stimulus fade. In addition, it assumes that fiscal austerity measures and sovereign debt problems in Europe drive down stock prices and the value of the euro, reducing the competitiveness of U.S. exports. Finally, the double-dip scenario assumes the housing recession drags on, undermining consumer confidence and causing a further decline in household wealth as home prices continue to fall.

In Global Insight's double-dip scenario, GDP would decline for three quarters beginning in the first quarter of 2011, and the unemployment rate would rise to a peak of 10.3% in 2011. Consumer price inflation would slow to 0.5% in 2011, and the risk of deflation would rise.

Puget Sound Region Economic Conditions and Outlook

The region's recession was similar in severity to the national downturn. The impact of national recessions on the Puget Sound Region's economy varies depending on the national recession's characteristics. For example, the 2001 recession was much more severe regionally than nationally, because the recession included a steep drop in air travel as a result of the September 11, 2001 terrorist attack. This caused a sharp falloff in the demand for commercial airliners, which led to substantial layoffs at Boeing. On the other hand, the region's economy performed better than the national economy during 1990-91 national recession, in part because Boeing employment held steady during the recession.

The impact of the 2007-09 recession on the local economy has been similar in severity to its impact on the national economy. While job loss was higher locally, the region's unemployment rate did not rise as high as the national rate and the region's housing market performed somewhat better than the nation's.

During the 2007-09 recession, the Seattle metro area (King and Snohomish Counties) experienced a peak-to-trough loss of 119,200 jobs, an 8.0% decline. The 8.0% decline exceeded both the national decline of 6.1% and the metro area's 7.0% job loss during the 2001-03 recession. Locally, the most severe losses were in construction, manufacturing outside of aerospace, and finance. The only major industry to see a significant increase in employment during the downturn was education and health services.

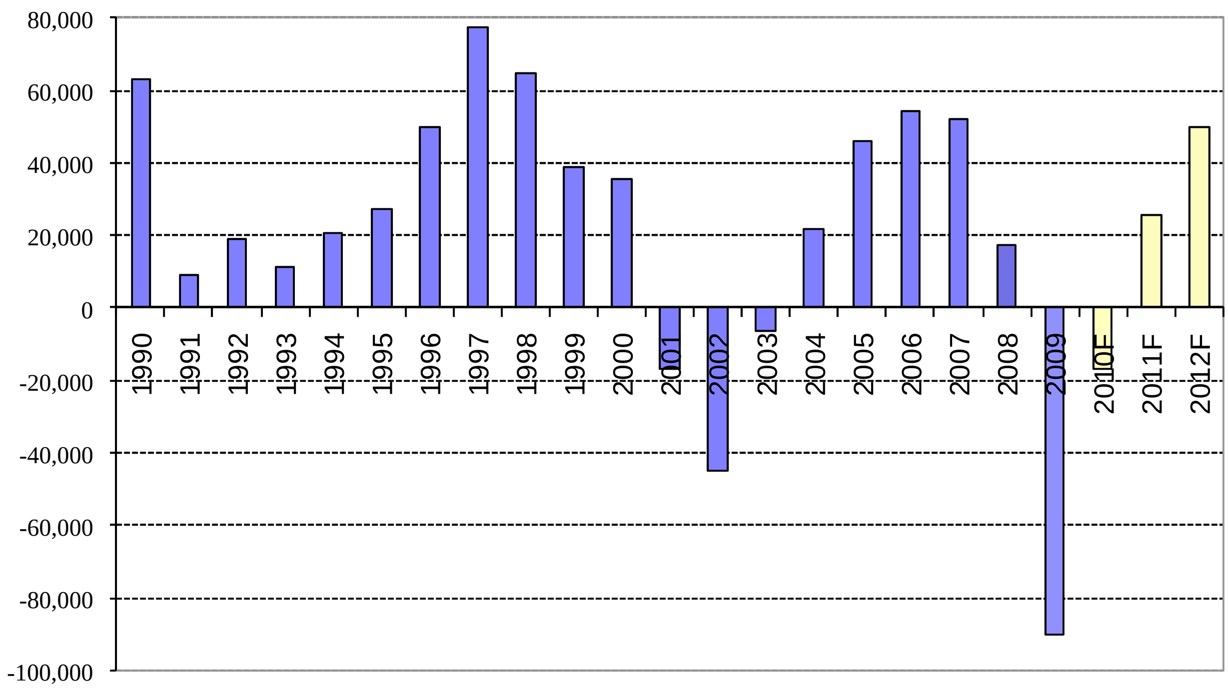
Interestingly, although the region's rate of job loss exceeded that of the nation, the local unemployment rate peaked at 8.9%, significantly below the national peak of 10.1%. One reason for this is that the region entered the recession with a significantly lower unemployment rate than the nation. As a result, the increase in the unemployment rate from pre-recession lows to recession highs was similar for the region and the nation.

Like the nation, the region has suffered through a housing boom and bust over the past ten years, but the housing downturn has been less severe here than nationally. Through the third quarter of 2010, single-family home prices in the region had fallen by 24.3% from their peak three years earlier, compared to a 31.0% peak-to-trough drop nationally, as measured by the Case-Shiller housing price index. In addition, local rates of foreclosure have been lower than national rates.

The region's economy will pick-up momentum slowly. The region's recovery is expected to be weak by historical standards, with growth picking-up gradually over time. The Puget Sound Economic Forecaster expects weak growth for the remainder of 2010, followed by a modest improvement in 2011, and then a transition to more healthy growth in 2012. Regional employment is projected to increase by only 1.5% in 2011 before rising to a more recovery-like 2.8% in 2012. Housing will recover more slowly than the rest of the economy, with housing starts not expected to move comfortably above recession levels until 2014. Nevertheless, the state's chief economist thinks that the recovery will be stronger in Washington than nationally, in part because Boeing and Microsoft have held up better during the downturn than have most of the nation's large employers.

Once the recovery takes hold, the economy's rate of growth will probably not return to pre-recession levels because consumers need to pay down debt and rebuild savings, and the federal government needs to get its budget under control. The Puget Sound Economic Forecaster expects employment to grow at a 1.9% annual rate from 2011 through 2021, which is a full percentage point slower than the 2.9% growth rate measured over the prior 35 years ending in 2008. Comparable figures for real (i.e., inflation adjusted) personal income are 3.1% annual growth for 2011-21, compared to 4.2% annual growth for the period 1973-2008.

Figure 3. Annual Change in Puget Sound Region Employment



Note: 2010-12 forecasts are from the Puget Sound Economic Forecaster's September 2010 forecast. Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.

Consumer Price Inflation

After reaching a 17 year high in mid-2008, inflation has fallen sharply. The 2001 national recession and the subsequent weak recovery helped to bring U.S. inflation down to 1.6% in 2002, its lowest level since the early

1960s. After reaching that low, inflation began to rise steadily, driven in large part by a relentless rise in oil prices from a low of just above $20 per barrel in early 2002 to a peak of $147 per barrel in July of 2008. As oil prices peaked, so did the consumer price index (CPI), with the July 2008 U.S. CPI-U rising to 5.6% measured on a year-over-year basis – its highest level in 17 years. Since then, the worst economic downturn in 80 years has pushed inflation rates down to levels not seen since the 1950s. The annual growth rate of the U.S. CPI-U fell to -0.4% in 2009, the first time in 54 years that consumer prices have declined on an annual basis.

Local inflation trends have been similar to national trends, since energy prices and national economic conditions have a major effect on local prices. The growth rate of the Seattle CPI-U peaked at 4.2% in 2008, and then dropped to 0.6% in 2009. For the 12 month period ending in June 2010, the Seattle CPI-U increased by 0.3%, while the Seattle CPI-W posted a 0.6% gain. Looking forward, a weak economy is expected to keep downward pressure on prices in the short-term. In fact, worries about deflation have increased in recent months.

Figure 4 presents historical data and forecasts of inflation for the U.S. and the Seattle metropolitan area through 2013. The forecasts are for the CPI-W, which measures price changes for urban wage earners and clerical workers (the CPI-U measures price changes for all urban consumers). The specific growth rate measures shown in Figure 4 are used as the bases of cost-of-living adjustments in City of Seattle wage agreements.

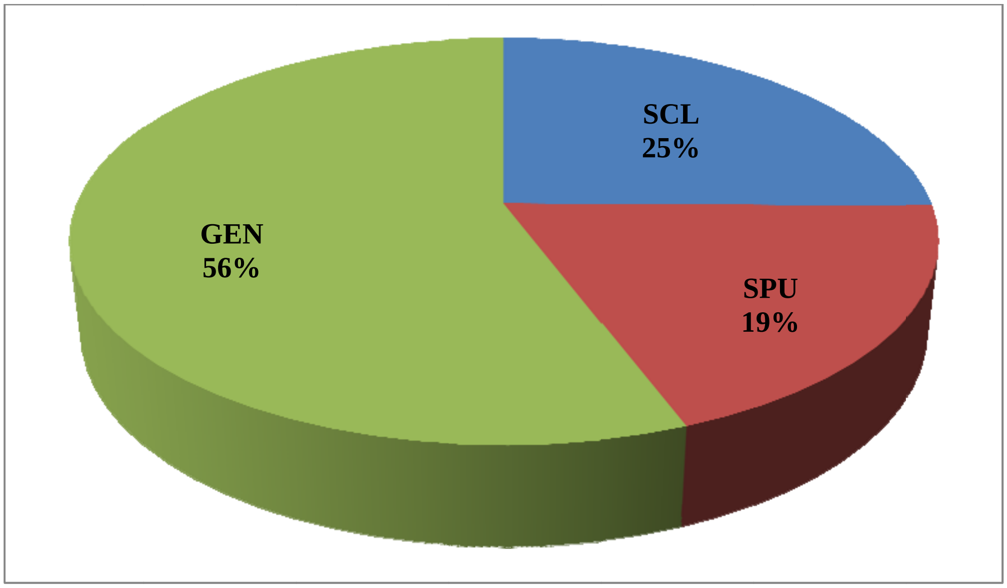
Figure 4. Consumer Price Index Forecast

	Seattle CPI-W (June-June growth rate)	**Seattle CPI-W** (growth rate for 12 months ending in June)
2010 (actual)	-0.1%	0.6%
2011	1.4%	1.0%
2012	2.0%	1.8%
2013	2.3%	2.3%

City Revenues

The City of Seattle projects total revenues of approximately $4.3 billion in 2011. As figure 5 shows, approximately 44% of these revenues are associated with the City's utility services, Seattle City Light and Seattle Public Utilities' Water, Drainage and Wastewater, and Solid Waste divisions. The remaining 56% are associated with general government services, such as police, fire, parks, and libraries. Money obtained from debt issuance is included in the total numbers as are interdepartmental transfers. The following sections describe forecasts for revenue supporting the City's primary operating fund, the General Subfund, its primary capital subfund, the Cumulative Reserve Subfund, as well as specific revenues supporting the City's Bridging the Gap Transportation program in the Transportation Fund.

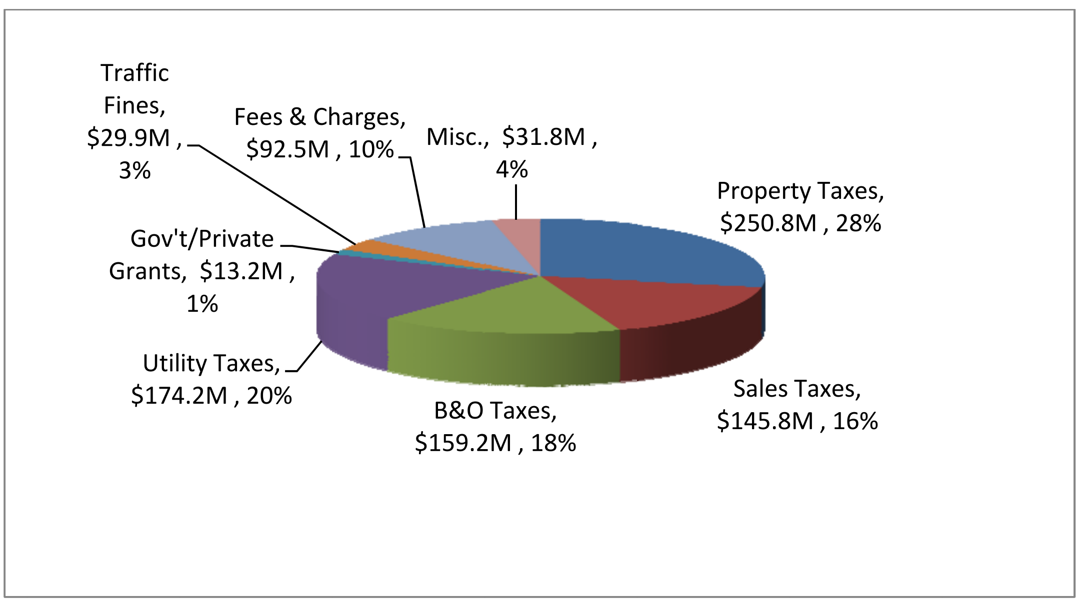
Figure 5. Total City Revenue by Use – Proposed 2011 $4.3 Billion



General Subfund Revenue Forecasts

Expenses paid from the General Subfund are supported primarily by taxes. As Figure 6 illustrates, the most significant revenue source is the property tax, which accounts for 28%, followed by utility taxes, the Business and Occupation (B&O) tax, and sales taxes.

Figure 6. 2010-Revised General Subfund Revenue Forecast by Source - $897.4M



Revenue Overview

In 2009, general government revenue into the General Subfund totaled approximately $893.8 million. General Subfund revenue is projected to increase to $897.4 million in 2010, stay flat at $897.4 million in 2011, and then grow to $923.3 million in 2012. It is important to note that 2009 and 2010 revenues were artificially high due to contributions from the Revenue Stabilization Account, or “Rainy Day Fund,” in amounts of $8.9 million and $11.3 million, respectively. Also in 2010, the former Department of Executive Administration (DEA) merged with the former Fleets & Facilities Department (FFD), along with various other City functions, to form the Department of Finance and Administrative Services (FAS). This merger resulted in 2011 and 2012 revenues, which formerly accrued to the General Subfund to support work administered by the former DEA, now going directly to FAS’s operating fund. Removing these effects, and those from proposed policies designed to increase revenues, would show a meager 0.7% and 3.7% rates of growth in GSF revenue for 2011 and 2012.

Figure 7 shows General Subfund actual revenues for 2009, adopted and revised revenues for 2010, as well as the adopted and endorsed revenues for 2011 and 2012. As a result of the national recession, tax receipts were negative (-1.9%) in 2009. The severity of the recession will continue to mute the City’s tax revenues with a paltry 1.0% growth expected in 2010, followed by 1.8% and 3.9% in 2011 and 2012. The main cause of the slower growth rates are the B&O and sales taxes. The economic downturn, while led by real estate, has also severely constrained consumer behavior, with record job losses and stubbornly high unemployment rates. This is most evident in the declining sales tax base. Construction activity has also declined, which is another source of pressure on sales tax receipts.

Revenue from on-street parking for 2010 is revised downward to $26.5 million from the 2010 Adopted Budget figure of $28.6 million. The 2011 Adopted and 2012 Endorsed Budgets, however, include on-street parking rate increases, and an extension of paid evening parking hours from 6 p.m. to 8 p.m. These changes continue the City’s program to adjust its parking rates and rules to more flexibly use the price of parking across different parts of the City to help achieve parking management goals. These changes result in increased revenues to $35.1 million in 2011 and $39.6 million in 2012. Significant increases in revenue are also anticipated in parking citation revenue due to ordinance changes allowing the use of an immobilizing parking boot on vehicles owned by individuals with four or more outstanding parking citations. The City anticipates increased payment compliance on citations and approximately $1.7 million in additional citation revenue in 2011 and $2.0 million in 2012.

Significant change in City revenue accounting in 2009. The City Charter requires that the general government support to the Park and Recreation Fund (PRF) be no less than 10% of certain City taxes and fees. Until fiscal year 2009, City treasury and accounting staff would directly deposit into the PRF 10% of these revenues as they were paid by taxpayers. The remaining 90% were deposited into the General Subfund or other operating funds as specified by ordinance. In addition to these resources, City budgets would provide additional General Subfund support to the PRF in amounts which greatly exceeded the 10% amount deposited in the PRF from these taxes and fees.

Beginning in 2009, City staff deposited 100% of the revenue from these taxes and fees directly into the General Subfund or other funds as appropriate. This has greatly simplified City accounting. The General Subfund support to the PRF is increased by an amount equal to PRF revenue from these taxes. For 2011 and 2012, General Subfund support to the Parks and Recreation department will be $81.0 million and $84.7 million. These contributions are well above the $37.9 and $39.6 million that would accrue to parks under the previous 10% accounting scheme.

Figure 7. General Subfund Revenue, 2009 – 2012*

(in thousands of dollars)

Revenue Source	2009 Actuals	2010 Adopted	2010 Revised	2011 Adopted	2012 Endorsed
General Property Tax (1)	208,386	213,355	214,388	218,491	221,869
Property Tax - Medic One Levy	37,157	36,802	36,440	35,164	35,083
Retail Sales Tax	136,632	136,383	133,934	137,118	143,695
Retail Sales Tax - Criminal Justice Levy	11,710	12,069	11,894	12,353	13,313
B&O Tax (100%) (2)	160,985	164,415	159,246	166,636	176,711
Utilities Business Tax - Telephone (100%)	34,613	33,163	33,976	32,868	33,150
Utilities Business Tax - City Light (100%)	33,749	39,452	39,313	41,414	42,976
Utilities Business Tax - SWU & priv.garb. (100%)	11,449	14,190	12,726	13,471	14,023
Utilities Business Tax - City Water (100%)	27,062	30,408	29,840	23,989	26,592
Utilities Business Tax - DWU (100%)	28,861	28,912	29,020	33,049	34,479
Utilities Business Tax - Natural Gas (100%)	16,221	14,373	12,975	12,345	13,259
Utilities Business Tax - Other Private (100%)	16,706	16,844	16,335	16,731	17,275
Admission Tax	5,588	5,515	6,359	5,759	5,920
Other Tax	5,082	4,729	4,736	4,870	5,070
Total Taxes	**734,201**	**750,611**	**741,182**	**754,257**	**783,416**
Licenses and Permits	13,157	13,487	13,604	12,035	11,982
Parking Meters/Meter Hoods	26,557	29,887	27,840	36,502	41,067
Court Fines (100%)	27,286	29,011	29,913	34,148	34,170
Interest Income	3,267	2,818	1,539	1,539	2,576
Revenue from Other Public Entities	20,808	13,146	13,207	11,230	10,802
Service Charges & Reimbursements (3)	52,900	52,074	51,027	35,903	36,633
Total: Revenue and Other Financing Sources	**878,176**	**891,034**	**878,312**	**885,614**	**920,646**
All Else	1,672	1,892	2,086	1,992	1,986
Interfund Transfers (4)	14,035	11,915	17,050	9,809	663
Total, General Subfund	**893,883**	**904,841**	**897,447**	**897,416**	**923,295**

NOTES:

(1) Includes property tax levied for the Firemen's Pension Fund per RCW 41.16.060.

(2) Included in 2009 Actual figures are the pass-through revenues that are not appropriated in adopted budgets.

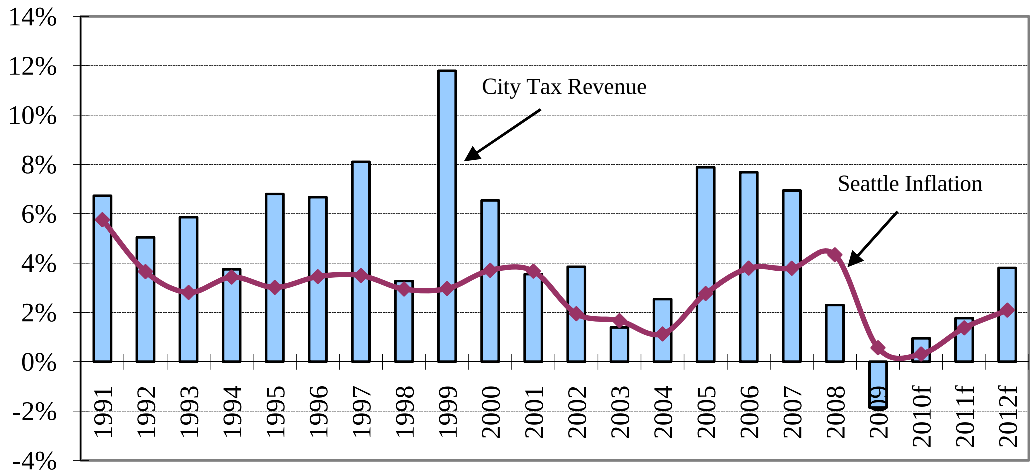
(3) The 2011-2012 Proposed Budgets reflect the merger of the former Dept. of Executive Administration and the former Fleets and Facilities Dept. into the Dept. of Finance and Administrative Services. The FAS operating fund will now collect DEA's former charges that accrued to the General Subfund.

(4) 2009 and 2010 interfund transfers include the use of Revenue Stabilization Fund funds, otherwise known as the "Rainy-Day" Fund. The 2011 amount includes the $8.5 million loan from the Museum of History and Industry.

* In the past, 10% of certain tax and fee revenues were shown as revenue to the Park and Recreation Fund and 90% as General Subfund. Beginning in 2009, 100% of these revenues (depicted as "100%" in the table) are deposited into the General Subfund and the General Subfund support to the Park Fund is increased by the value of 10% of these revenues. This table shows all figures for all years using the new approach.

Figure 8 illustrates tax revenue growth outpacing inflation for most of the 1990s and 2000, before the 2001-2003 local recession took hold. Slow growth posted in 2001 is also attributable to Initiative 747, which reduced the statutory annual growth limit for property tax revenues from 6.0% to 1.0%, beginning in 2002. Economic growth starting in 2004 led to very strong revenue growth in 2005 through 2007, staying well above inflation. The tax revenue growth was outmatched by inflation in 2008 and 2009. The Seattle rate of inflation has fallen to near zero, but 2009 had a negative growth rate of just over 1.9% in tax revenue. Continued anemic growth is expected for 2010 and 2011, followed by a comfortable 3.9% rate in 2012. Seattle area inflation is forecast to be muted for the coming biennium.

Figure 8. City of Seattle Tax Revenue Growth, 1991-2012



Property Tax

Property tax is levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices, and other buildings. In addition, property tax is levied on business machinery and equipment. In accordance with the Washington State Constitution and state law, property taxes paid by a property owner are determined by a taxing district's rate applied to the value of a given property. Figure 9 shows the different jurisdictions whose rates make up the total property tax rate imposed on Seattle property owners. The King County Assessor determines the value of properties, which is intended to generally reflect 100% of the property's market value.

For the first time in 14 years, total assessed value in the City of Seattle fell in 2010 by approximately 10.3 percent. The last significant decrease was in 1984 when assessed value dropped by 3.6 percent. Consequently, in 2010, the total property tax rate from all jurisdictions paid by Seattle property owners increased to $9.04 per thousand dollars of Assessed Value (AV). For an owner of a home with an AV of $448,500 (the average AV for residences in Seattle), the 2010 tax obligation was approximately $4,055. The City of Seattle's total 2010 tax rate was roughly one-third of the total rate at $2.92, which equals an annual tax obligation of approximately $1,312 for the average valued home.

Figure 9 illustrates the components of the City's 2010 property tax: the non-voted General Purpose levy (61%); the six voter-approved levies for specific purposes (34%), known as lid lifts because the voters authorize taxation above the statutory lid or limit; and the levy to pay debt service on voter-approved bonds (5%). The City's nine-year transportation lid lift will generate approximately $39.4 million in 2010, $40.0 million in 2011, and $40.7 million in 2012. These revenues are accounted for in the Transportation Fund and are discussed later in this section. There are no levy lid lifts proposed for voter approval in 2010.

Statutory growth limits and new construction. The annual growth in property tax revenue is restricted by state statute in two ways. First, state law limits growth in the amount of tax revenue a jurisdiction can collect, currently the lesser of 1% or the national measure of the Implicit Price Deflator. Previously, beginning in 1973, state law limited the annual growth of the City's regular levy (i.e., General Purpose plus voted lid lifts) to 6%. In November 2001, voters statewide approved Initiative 747, which changed the 6% limit to the lesser of 1% or the Implicit Price Deflator, effective for the 2002 collection year. On November 8, 2007, Initiative 747 was found unconstitutional by the state Supreme Court. However, the Governor and state legislature, in a special session on November 29, 2007, reenacted Initiative 747. Second, state law caps the maximum tax rate a jurisdiction can impose. For the City of Seattle, this cap is $3.60 per $1,000 of assessed value and covers the City's general purpose levy, including Fire Pension, and lid lifts. The City tax rate has been well below this cap for many years.

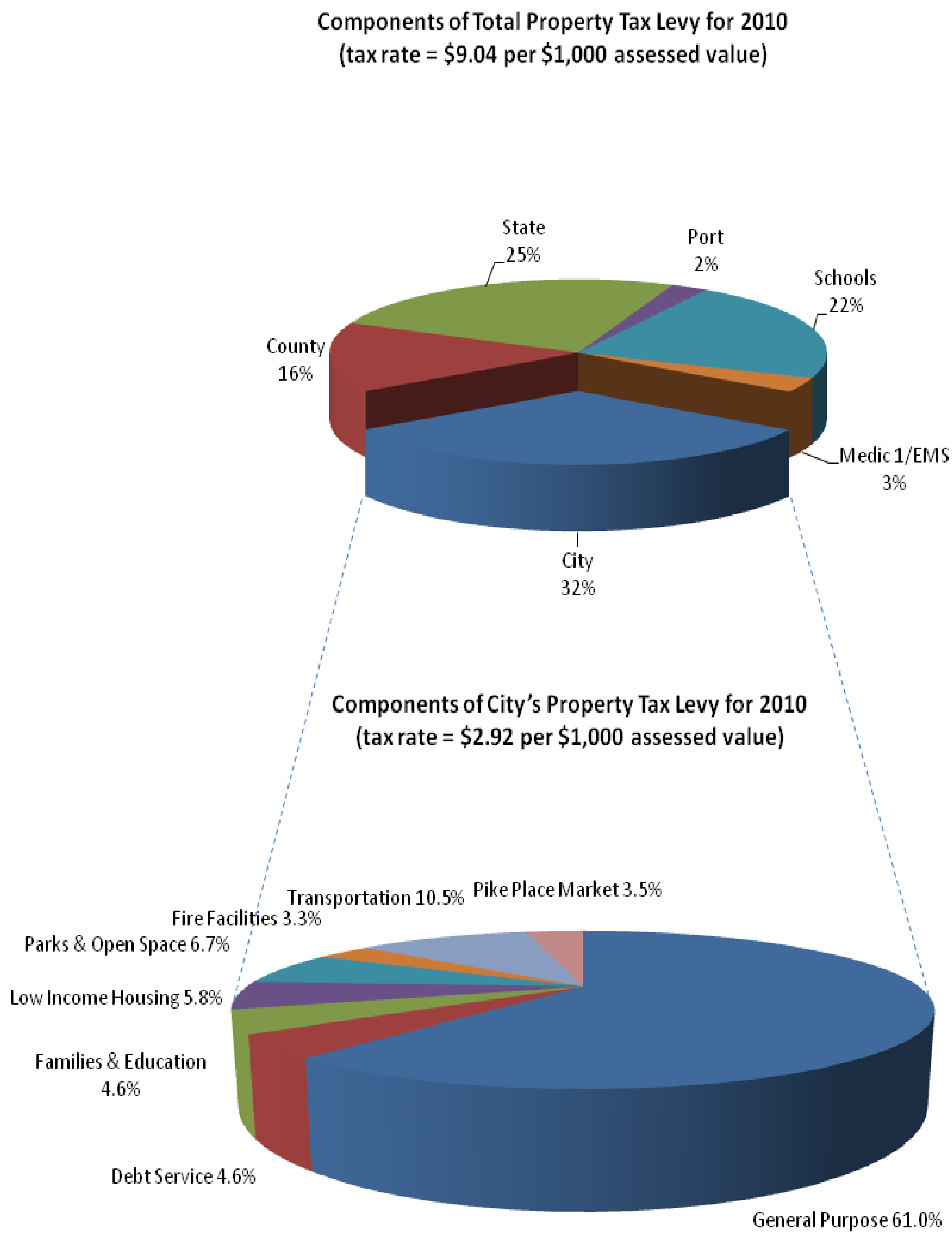
New Construction - In addition to the allowed maximum 1% revenue growth, state law permits the City to increase its regular levy in the current year by an amount equivalent to the previous year's tax rate times the value of property constructed or remodeled within the last year, as determined by the assessor.

The 2011Adopted and2012 Endorsed Budgets assume 1% growth plus new construction. In line with the incredible rise in construction activity throughout the past decade, new construction revenues have exceeded $2 million since 1999, with rapid increases between 2005 ($2.9 million) and 2008 ($6.64 million). New construction revenue for the 2009 tax collection year remained high at $6.38 million, before succumbing to economic realities and falling 35 percent in 2010 to $4.11 million. The forecast for 2011 and 2012 reflects further sharp decreases of 55 percent and 13 percent, respectively, to $1.8 and $1.6 million.

The forecast for the General Subfund (General Purpose) portion of the City's property tax is $218.5 million in 2011 and $221.4 million in 2012.

Medic 1/Emergency Medical Services. In November 2007, King County voters approved a six-year renewal (2008-2013) of the Medic 1/EMS levy. The approved starting rate was $0.30 per thousand dollars of assessed value, and the rate had begun to decline in 2009 as assessed valuation increased. In 2010, however, due to the significant decreases in assessed valuations of property in King County, the Medic 1/EMS tax rate rose back to its authorized limit of $0.30 per thousand dollars of assessed value, and the levy is projected to generate approximately $36.4 million for Seattle Medic 1/EMS services in 2010. This is a decrease of approximately 2 percent from the $37.2 million collected in 2009. Assessed values are projected to decrease further in 2011, and remain flat into 2012, leading Seattle's Medic 1/EMS revenues to decrease by a projected 3.5 percent in 2011, and 0.2 percent in 2012, to $35.2 million and $35.1 million, respectively.

Figure 9


Components of Total Property Tax Levy for 2010
(tax rate = $9.04 per $1,000 assessed value)
State 25%
Port 2%
Schools 22%
County 16%
Medic 1/EMS 3%
City 32%
Components of City's Property Tax Levy for 2010
(tax rate = $2.92 per $1,000 assessed value)
Transportation 10.5%
Pike Place Market 3.5%
Fire Facilities 3.3%
Parks & Open Space 6.7%
Low Income Housing 5.8%
Families & Education 4.6%
Debt Service 4.6%
General Purpose 61.0%

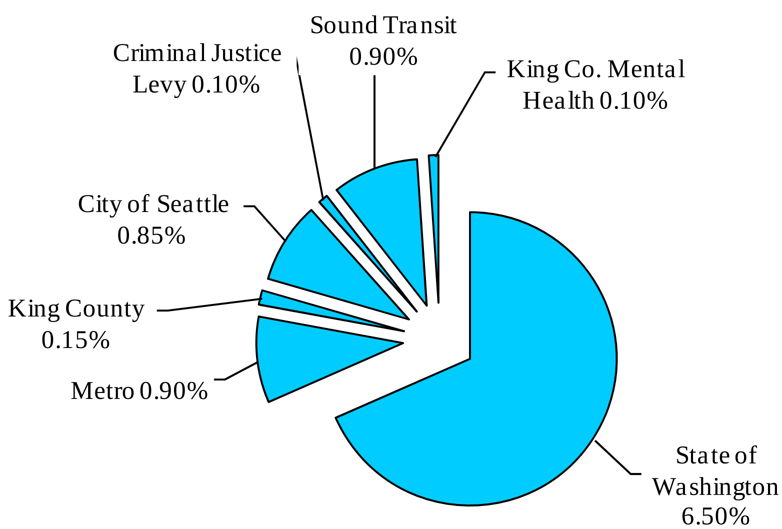
Retail Sales and Use Tax

The retail sales and use tax (sales tax) is imposed on the sale of most goods and certain services in Seattle. The tax is collected from consumers by businesses that, in turn, remit the tax to the state. The state provides the City with its share of these revenues on a monthly basis.

The sales tax rate in Seattle is 9.5% for most taxable transactions. The rate was increased from 9.0% on April 1, 2009, following voter approval of a 0.5% rate increase to pay for an expansion of the region's Sound Transit light rail system. The vote increased the sales tax rate for Sound Transit from 0.4% to 0.9%. The exception to the 9.5% rate is a 10.0% rate that is applied to food and beverages sold in restaurants, taverns, and bars throughout King County. The extra 0.5% was imposed in January 1996 to help pay for the construction of a new professional baseball stadium in Seattle.

The basic sales tax rate of 9.5% is a composite of separate rates for several jurisdictions as shown in Figure 10. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected by the King County Criminal Justice Levy.

Figure 10. Sales and Use Tax Rates in Seattle, 2010



Total Rate = 9.5%

NOTE: Rate is 10.0% for food and beverages sold in restaurants and bars.

Washington State implemented destination based sales taxation on July 1, 2008. On July 1, 2008, Washington brought its sales tax procedures into conformance with the Streamlined Sales and Use Tax Agreement (SSUTA), a cooperative effort of 44 states, the District of Columbia, local governments, and the business community, to develop a uniform set of procedures for sales tax collection and administration that can be implemented by all states. Conformance with SSUTA has had two major impacts on local government sales tax revenue.

- Over 1,000 remote sellers agreed to begin collecting taxes on remote sales made to customers in Washington once the state was in conformance with SSUTA. This has increased local sales tax revenue.
- When a retail sale involves a delivery to a customer, SSUTA requires that the sales tax be paid to the jurisdiction in which the delivery is made. This is called destination based sourcing. Prior to 2008, Washington used origin based sourcing, i.e., allocating the sales tax to the jurisdiction from which the

delivery was made. The change from origin based sourcing to destination based sourcing has resulted in a reallocation of sales tax revenue among local jurisdictions

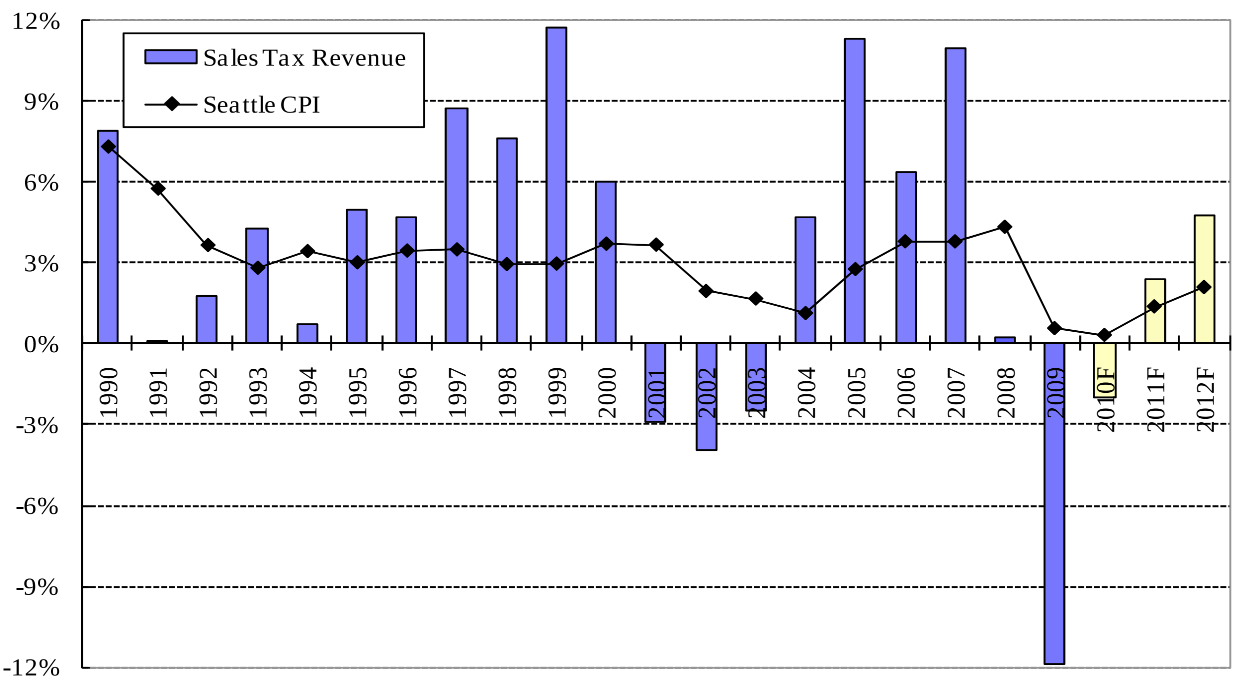
As a result of the changes the state made to comply with SSUTA, Seattle has seen a small increase in its sales tax revenue according to estimates by the Washington Department of Revenue.

Sales tax revenue has grown and contracted with the region's economy. Seattle's sales tax base grew rapidly in the late 1990s, driven by a strong national economy, expansion at Boeing in 1996-97, and the stock market and technology booms. Growth began to slow in 2000, when the stock market bubble burst and technology firms began to falter. The slowdown continued into 2001 and 2002, and the year-over-year change in revenue was negative for ten consecutive quarters beginning with first quarter 2001. The economy began to recover in 2004, which was followed by three very strong years (2005-07), during which taxable sales grew at an average rate of 9.8%, led by construction's 21.0% growth rate.

With the onset of the national recession, growth began to slow in the first quarter of 2008, continued slowing in the second and third quarters, and then collapsed in the fourth quarter as the financial crisis reached its peak. Seattle's real (inflation adjusted) sales tax base declined by 8.6% in the fourth quarter of 2008, a rate of decline unprecedented during the previous 35 years. The decline continued at a more moderate pace until the fourth quarter of 2009, by which time the real decline in the tax base from 2008 Q1 had reached 19.0%.

Construction, which led the pre-recession build-up in the sales tax base, also led the decline. During the four year period 2004 Q1 – 2008 Q1, taxable sales for construction more than doubled (112.2% increase). In the following two years they dropped by 35.4%, erasing two-thirds of the build-up of the previous four years. Other industries posting the steep declines in taxable sales during the recession were manufacturing, finance and insurance, and, in the retail sector, building materials and garden supplies.

Figure 11. Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2010-12 are forecasts.

Retail sales tax revenue will decline in 2010, but growth will resume in 2011. Through the first nine months of 2010, sales tax revenue is down 3.7% from the first nine months of 2009. However, revenue is expected to increase by 3.3% in the fourth quarter, resulting in a 2.0% decline for the year. Growth in 2011 is expected to be a modest 2.4%, in part because construction's decline is expected to continue until mid-2011. Growth will rise to 4.8% in 2012, as construction activity begins to expand.

2010 sales tax revenue was boosted by the state's expansion of the sales tax base to include candy, gum, and bottled water beginning June 1, 2010. However, the passage of Initiative 1107 in the November 2010 election reversed this base expansion, removing the tax on candy, gum, and bottled water on December 2, 2010. The City received an estimated $800,000 in 2010 from six months of sales tax collections on the sale of candy, gum, and bottled water.

Business and Occupation Tax

Prior to January 1, 2008, the Business and Occupation (B&O) tax was levied by the City on the gross receipts of most business activity occurring in Seattle. Under some conditions, gross receipts of Seattle businesses were excluded from the tax if the receipts were earned from providing products or services outside of Seattle.

On January 1, 2008, new state mandated procedures for the allocation and apportionment of B&O income took effect. These procedures were expected to reduce Seattle's B&O tax revenue by $22.3 million in 2008. On January 1, 2008, the City implemented a square footage business tax to recoup the $22.3 million by taxing a portion of the floor area of businesses that received a tax reduction as a result of the new allocation and apportionment procedures. The new tax was structured so that no business would pay more under the new combined gross receipts and square footage business tax than it did under the pre-2008 gross receipts B&O tax.

The City levies the gross receipts portion of the B&O tax at different rates on different types of business activity, as indicated in Figure 13 at the end of this section. Most business activity, including manufacturing, retailing, wholesaling, and printing and publishing, is subject to a tax of 0.215% on gross receipts. Services and transporting freight for hire are taxed at a rate of 0.415%. The square footage business tax also has two tax rates. In 2010, the rate for business floor space, which includes office, retail, and production space, was 41 cents per square foot per quarter. Other floor space, which includes warehouse, dining, and exercise space, was taxed at a rate of 14 cents per square foot per quarter. The floor area tax rates are adjusted annually for inflation.

Other things being equal, the B&O tax base is more stable than the retail sales tax base. The B&O base is broader than the sales tax base, is less reliant on the construction and retail trade sectors, and is more dependent upon the service sector (most services are not subject to the sales tax).

Included in the forecast of B&O tax revenue are projections of tax refund and audit payments, and estimates of tax penalty and interest payments for past-due tax obligations.

B&O revenue grew rapidly from 2005 to 2007, then succumbed to the recession in 2008. Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax rolls, businesses began reporting their taxable income more accurately, and audit and delinquency collections increased significantly – all of which helped to increase B&O receipts beginning in 1996. In 2000, B&O revenue was boosted by changes the state of Washington made in the way it taxes financial institutions. These changes affected the local tax liabilities of financial institutions.

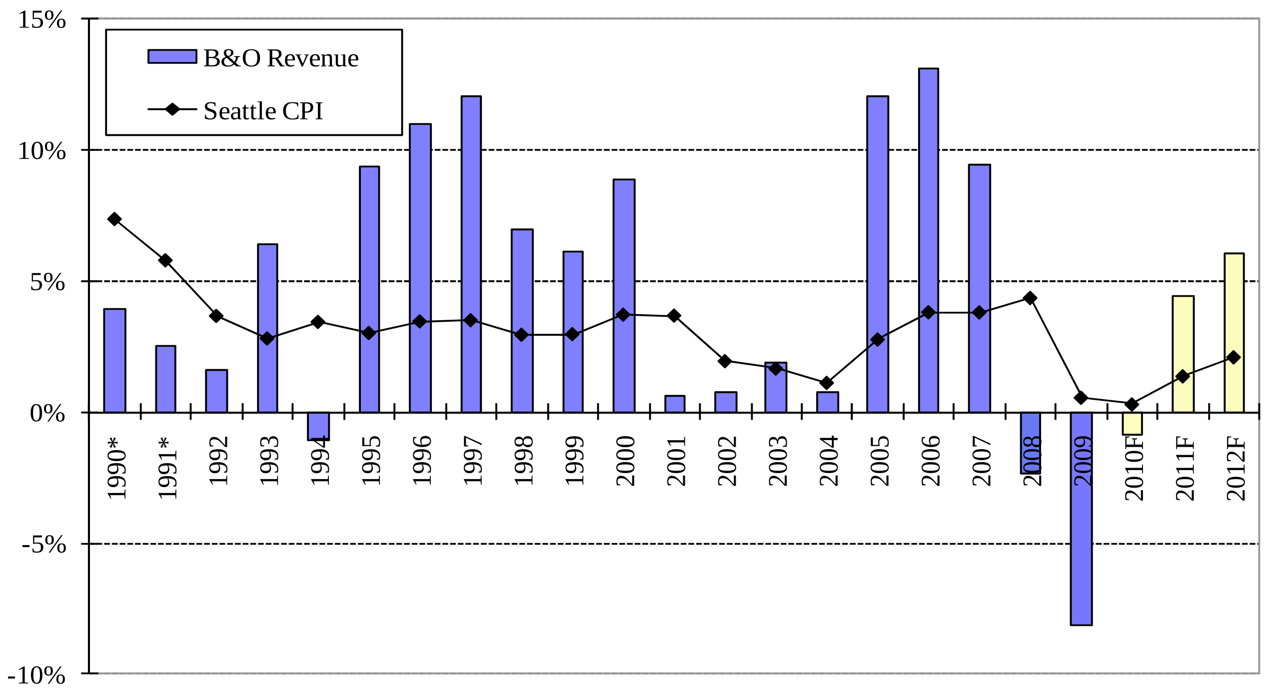
When the region's economy slipped into recession in early 2001, B&O revenue growth slowed abruptly, and remained below 2% for four successive years (see Figure 12). Revenue growth then accelerated sharply in 2005 and averaged 11.5% over the three year period 2005-07. The upswing was led by strong growth in construction, services, finance, insurance, and real estate. The years of plenty ended in 2008, which started out with a healthy 8.3% year-over-year increase in revenue from current economic activity in the first quarter, and ended with a

7.0% year-over-year decline in the fourth quarter. For the year, revenue from current economic activity increased by only 0.8%, but because of a big drop in non-current revenue from an unusually high level in 2007, B&O revenue for the year declined by 2.3%.

Revenue from current economic activity continued its decline in 2009, hitting bottom in the third quarter of the year before posting a small gain in the fourth quarter. The decline was led by construction, manufacturing, wholesale trade, and finance & insurance. Total B&O revenue for 2009 was down $14.3 million (8.2%) from 2008.

Small business threshold is increased to $100,000 in 2010. The City provides an exemption from the B&O tax for small businesses whose annual taxable gross revenue (gross receipts less allowable deductions) is less than a specified threshold. Prior to January 1, 2008, that threshold had been $50,000, an amount which had remained unchanged since 1994. In 2008, the threshold was raised to $80,000 to take account of inflation that had occurred since 1994. The threshold was increased again in 2010, to $100,000. The increase from $80,000 to $100,000 will result in an estimated revenue loss of $500,000 per year beginning in 2010.

Figure 12. Annual Growth of B&O Tax Revenue



*1990 and 1991 figures have been adjusted to remove the effects of tax rate increases.
Note: Revenue figures reflect current accrual methods; 2010-12 are forecasts.
2008-12 figures include both gross receipts and square footage tax revenue.

B&O revenue growth is expected to turn positive in 2011 following three years of decline. Revenue from current economic activity is forecast to increase by 1.3% in 2010. However, total revenue for the year is expected to fall by 1.1%, as the increase in revenue from current economic activity is more than offset by an expected decline in revenue from non-current activity. This decline is largely due to an anticipated falloff in audit revenue from an unusually high level in 2009. An expanding economy is expected to boost B&O revenue growth to 4.6% in 2011 and 6.0% in 2012. The forecasts for both 2011 and 2012 have been increased by $721,000 to account for the expected revenue gain from the addition of two auditors to City enforcement staff.

Utility Business Tax - Private Utilities

The City levies a tax on the gross income derived from sales of utility services by privately owned utilities within Seattle. These services include telephone, steam, cable communications, natural gas, and refuse collection for businesses.

Natural gas prices have stabilized. The City levies a 6% utility business tax on gross sales of natural gas. The bulk of revenue from this tax is received from Puget Sound Energy (PSE). PSE's natural gas rates are approved by the Washington Utilities and Transportation Commission (WUTC). Another smaller tax is levied on private brokers of natural gas to clients in the City. It is also assessed at 6% on gross receipts.

The first half of 2008 saw unprecedented spikes in the prices of energy. Natural gas prices were no exception; they reached a high of $13 per million British Thermal Units (BTUs) in July 2008, and then started a quick and steady fall. As of September 2009, the one-month futures price was $2.51/mBTU. In 2010, prices have seemingly stabilized around $4.31/mBTU. Global Insight expects prices to stay in the $4.0 to $5.0/mBTU range for the coming biennium. Puget Sound Energy over the past few years has been adjusting its rates to reflect these changes in price, as well as on-going infrastructure updates. Revenues are expected to be down 6.1% in 2011 and up 5.4% in 2012.

Telecommunications activity has slowed. The utility business tax is levied on the gross income of telecommunication firms at a rate of 6%. After extraordinary growth over several consecutive years in the late 1990s, telecommunication tax revenue growth halted completely in 2002, and began declining in the fourth quarter of that year. A variety of forces – the lackluster economy, industry restructuring, and heightened competition – all served to force prices downward and reduce gross revenues. Additionally, recent technological changes, particularly Voice-over Internet Protocol (VoIP), which enables local and long-distance calling through broadband Internet connections, contribute to the uncertainties in this revenue stream.

All sectors of the industry have been affected to varying degrees by the recession as well as changes in consumer habits. Wireless revenues have been growing over the past few years as more and more consumers shift to cellular phones as their primary voice option. Additionally in 2009 and 2010, there were some large audit payments from wireless providers that provided a needed boost to General Subfund revenues. Traditional telecom providers are experiencing a slow decline in their business fortunes, and this is expected to continue. For now, wireless growth has been enough to mitigate the tax revenue declines seen from the more traditional telecommunications providers. The total telecom tax stream is expected to show -3.3% and 0.9% growth in 2011 and 2012, respectively. 2011 will be negative because of 2010's artificially high receipts from audit payments.

Cable tax revenue shows positive growth. The City has franchise agreements with cable television companies operating in Seattle. Under the current agreements, the City levies a 10% utility tax on the gross subscriber revenues of cable TV operators, which accounts for about 90% of the operators' total revenue. The City also collects B&O taxes on miscellaneous revenues not subject to the utility tax. The imposition of a 4.2% franchise fee makes funds available for cable-related public access purposes. This franchise fee, which is deposited in the City's Cable TV Franchise Fee Subfund, increased from 3.5% in June 2006.

Cable revenues have been growing steadily during this economic recession. Average annual growth for 2010 through 2012 is expected to be 2.3%, ahead of inflation. Comcast, Seattle's largest provider of cable services, has recently announced a 3% rate increase beginning in October. Amid growing competition from satellite TV, the cable industry has increased its services including additional channels, pay-per-view options, and digital reception, in order to remain competitive, and the increased tax revenues suggest that strategy is working.

Utility Business Tax - Public Utilities

The City levies a tax on most revenue from retail sales collected by City-owned utilities (Seattle City Light and Seattle Public Utilities). Tax rates range from a State-capped 6% on City Light up to a current 19.87% on the City Water Utility (this rate includes a surcharge that is planned to expire at the end of 2010). There are no planned tax rate changes, therefore the revenues from the utilities are projected to remain fairly stable, with the exception of those utilities with changes in rate structure.

Rate changes in the coming biennium. City Light sells excess power on the wholesale energy market. City Light energy production, almost exclusively hydro power, competes with natural gas in the wholesale market. Due to severe declines in natural gas prices in 2009, and lower than anticipated water levels in 2010, City Light is experiencing some financial turmoil. A rate increase of 13.8% took effect January 1, 2010, leading to an increase in City Light tax revenues. The City Council also authorized the creation of a rate stabilization fund for the utility. This required an initial 4.5% surcharge that took effect in May of 2010, and is scheduled to step down to 0.0% in January of 2011. As a result of these changes and on-going commitments to purchase power from the Bonneville Power Administration, average retail power rates are expected to be 4.3% higher in 2011 than they were in 2010. Similarly, rates are expected to be 3.2% higher in 2012 than the previous year. Tax revenues that accrue to the General Subfund will have annual increases of 5.3% and 3.7% in 2011 and 2012, respectively.

Water rate surcharge elimination leads to lower tax revenues. Seattle Public Utilities' Water Utility rates increased by 18.4% in 2009 and will increase by 9.9% in 2010. In addition to these general rate increases, there was a 10.2% surcharge as a result of a court decision stipulating that Water Utility ratepayers must be refunded from the General Subfund for fire hydrant costs previously paid for through Water Utility rates. This refund was paid for through an increase in the Water Utility tax rate to 19.87% from 15.54%. By January 1, 2011, the surcharge will expire and the tax rate will once again be 15.54%. There are no rate changes planned for 2011, resulting in tax revenues that will be 19.6% lower than they were in 2010. SPU is planning a water retail rate increase of 11.9% for 2012, leading to a tax revenue growth rate of 10.9% in 2012.

Drainage and Wastewater rate increases mean higher tax revenue growth. A rate increase for Drainage and Wastewater is being proposed for 2011 and 2012. There has also been a pass-through rate increase from King County to help fund the County's Brightwater treatment plant of about 10%. This leads to higher revenue for the utility and therefore higher utility tax revenues. 2011 revenues are forecast to be up 13.9% over 2010, but 2012 receipts will show a 4.3% increase from 2011.

Higher Solid Waste rates mean higher tax revenue growth. The utility tax rate on both City of Seattle and commercial solid waste service is currently 11.5%. The Solid Waste Utility has approved rate increases of 26.0% for 2009, and 8.5% for 2010m and the Council has approved average rate increases of 5.9% and 3.6% in 2011 and 2012, respectively.

Admission Tax

The City imposes a 5% tax on admission charges to most Seattle entertainment events, the maximum allowed by state statute. This revenue source is highly sensitive to swings in attendance at athletic events. It is also dependent on economic conditions, as people's ability and desire to spend money on entertainment is influenced by the general prosperity in the region.

Admissions tax receipts have been stable and not severely affected by the economy. There have been some changes to the tax base and to the uses of the tax proceeds. 20% of admissions tax revenues, excluding men's professional basketball, were dedicated to programs supported by the Office of Arts and Cultural Affairs (OACA). For 2010, the Mayor and Council agreed to increase this contribution to 75% based on the actual admission tax receipts from two years prior. As a result, OACA is fully funded by the admissions tax, except for money received from the 1% for Arts program. The forecasts in Figure 7 for admissions taxes reflect the full amount of tax revenue. The Office of Arts and Cultural Affairs section of this document provides further detail on the Office's use of Arts Account revenue from the admission tax and the implementation of this change.

Licenses and Permits

The City requires individuals and companies conducting business in Seattle to obtain a City business license. In addition, some business activities, such as taxi cabs and security systems, require additional licenses referred to as professional and occupational licenses. The City also assesses fees for public-safety purposes (e.g., pet ownership and fire hazard inspection) and charges a variety of fees for the use of public facilities and rights-of-way.

The City instituted a two-tier business license fee structure beginning with licenses for 2005. The cost of a license, which had been $80 per year for all businesses, was raised to $90 for businesses with worldwide revenues of more than $20,000 per year and lowered to $45 for businesses with worldwide revenues less than $20,000 per year. The shift to the two-tier structure has resulted in a small decline in revenue of approximately $90,000 per year.

As part of the City's Bridging the Gap transportation funding initiative, effective July 1, 2007, the Commercial Parking License fee paid by commercial parking operators was reduced from $90 per 1,000 square feet of floor space to $6 per 1,000 square feet. As a result of this change, license revenue declined by $890,000 in 2008.

Parking Meters/Traffic Permits

In spring 2004, the City of Seattle began replacing traditional parking meters with pay stations in various areas throughout the City. Pay stations are parking payment devices offering the public more convenient payment options, including credit cards and debit cards, for hourly on-street parking. At the same time, the City increased parking rates from $1 to $1.50 per hour. These changes were part of a parking management program that continues to work throughout the City. As part of numerous changes to improve traffic flow, space turnover and other management objectives, the Seattle Department of Transportation (SDOT) has also increased the total number of parking spaces in the street right-of-way which are subject to fees.

One element of the parking management program is greater use of the price signal to achieve management objectives. In 2007, SDOT extended pay station control over 2,160 previously non-paid spaces in the South Lake Union area. Under an experimental approach, multiple rates were implemented categorically for these spaces and were to be adjusted periodically to consistently achieve a desired occupancy rate in the area. This approach was extended citywide in 2009 with a three-tiered rate program, with rates varying according to parking demand by area of the City. Accompanying this change in policy, the maximum allowable hourly rate was increased from $1.50 per hour to $2.50 per hour to allow for rate setting flexibility. The 2011Adopted Budget includes a further increase in the maximum allowable hourly rate from $2.50 to $4.00 per hour and an extension of paid evening parking hours from 6 p.m. to 8 p.m. SDOT will also no longer use the previously established 3 tiered system to vary rates. Instead SDOT will vary rates by smaller geographic areas, beginning with neighborhoods. Total parking revenues are anticipated to be $26.5 million in 2010, increasing to $35.1 million in 2011 and $39.6 million in 2012. More information about the pay station technology program is provided in the SDOT section of this document.

Street Use and Traffic Permits. At $1.95 million, revenues for 2010 are projected to be 13.6 percent lower than 2009 actual revenues for traffic-related permit fees, such as meter hood service, commercial vehicle load zone, truck overload, gross weight and other permits. This decline is in response to declining economic activity, primarily construction activity, requiring permits. The 2011-2012 Proposed Budget assumes continued lower levels of activity, but includes a rate increase for certain street use permits. Total revenues for this category are projected to be $2.1 million in 2011 and to remain flat into 2012.

Court Fines

Historically, between 70% and 85% of fine and forfeiture revenues collected by the Seattle Municipal Court are from parking citations and fines resulting from enforcement efforts by Seattle Police Department parking enforcement and traffic officers. An additional 8% to 10% comes from traffic tickets. Trends indicated decreases in parking citation volume through 2006. This was in part due to enforcement and compliance changes stemming from the parking pay station technology. However, beginning in 2007 citation volume increased, in part due to changes in enforcement technology and strategies, but also due to the addition of three Parking Enforcement Officers (PEOs) authorized as part of the South Lake Union parking pay station extension (described above in the Parking Meter section). Demand for parking enforcement has also grown with changes in neighborhood development and parking design changes. The City has established several new Restricted Parking Zones (RPZs), especially around the new light-rail train stations through the Rainier Valley. In response, an additional 8 new PEOs were authorized in 2009, 7 in 2010, and 2 are authorized in this 2011 Adopted Budget.

In 2009, the City received $27.2 million in court fines and forfeitures, including $4.7 million from the expanded red light camera enforcement program, which grew from 6 camera locations to 18 in the last quarter of 2008 and to nearly 30 total locations in early 2009. With the added enforcement, total fines and forfeitures revenues are projected at $29.9 million in 2010. The 2011Adopted-2012 Endorsed Budget authorizes parking enforcement officers to use an immobilizing boot on vehicles owned by individuals with four or more unpaid parking citations. Use of the boot is expected to increase payment compliance on outstanding citations as well as for newly issued citations. Revenue from citations is projected to increase to $33.2 million in 2011 and $33.1 million in 2012. These totals include an anticipated decrease in citations and revenues from the red light cameras, which falls to $4.5 million in 2011 and $4.1 million in 2012.

Interest Income

Through investment of the City’s cash pool in accordance with state law and the City’s own financial policies, the General Subfund receives interest and investment earnings on cash balances attributable to several of the City’s funds or subfunds that are affiliated with general government activities. Many other City funds are independent, retaining their own interest earnings. Interest and investment income to the General Subfund varies widely, subject to significant fluctuations in cash balances and changes in earnings rates dictated by economic and financial market conditions.

After several years of short-term interest rates ranging between 3% and 5%, short-term interest rates fell significantly beginning in 2008, dropping to 0.5% and below by the 4th quarter of 2008. These rates have remained low in 2009-2010 and are projected to remain low through 2012. Medium and long-term rates have declined significantly as well during this same time period, and may take equally as long to recover. The expectation of continued low earnings rates has moved the City’s investment portfolio into increasingly shorter-term securities, as previously held securities matured. The anticipated annual yield for 2010 is revised downward to 0.94 percent, with yields of 0.79 percent in 2011, and 1.50 percent in 2012. Current estimates for General Subfund interest and investment earnings are $1.5 million in 2010, $1.5 million in 2011, and $2.5 million in 2012.

Revenue from Other Public Entities

Washington State shares revenues with Seattle. The State of Washington distributes a portion of tax and fee revenue directly to cities. Specifically, portions of revenues from the State General Fund, liquor receipts (both profits and excise taxes), and motor vehicle fuel excise taxes, are allocated directly to cities. Revenues from motor vehicle fuel excise taxes are dedicated to street maintenance expenditures and are deposited into the City’s Transportation Fund. Revenues from the other taxes are deposited into the City’s General Subfund.

Little change in Criminal Justice revenues. The City receives funding from the State for criminal justice programs. The State provides these distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. 2009 criminal justice revenues were $2.4 million. 2010-2012 yearly receipts are expected to be little changed from the 2009 revenues.

November 2010 Initiatives failed and will not affect liquor revenues. In recent years the City's share of Liquor Board profits has stabilized to around $4 million a year. These are funds recorded as net income for the liquor board in its operation of liquor sales in the State of Washington. 40% of these funds are distributed quarterly to cities and towns on the basis of population. In the 2007-2009 State Budget, the Liquor Board instituted a series of new initiatives and programs with the aim of increasing revenues, decreasing costs, and therefore increasing profits. These benefits began to show in 2007 and 2008, and will have stabilized by 2011. Liquor excise taxes, which are levied on the sale of liquor, have stabilized to providing Seattle almost $3.0 million a year. Spirit sales have been stable throughout the recession, but sales of beer and wine have declined at double digit rates.

Service Charges and Reimbursements

Internal service charges reflect current administrative structure. In 1993, the City Council adopted a resolution directing the City to allocate a portion of central service expenses of the General Subfund to City utilities and certain other departments not supported by the General Subfund. The intent is to allocate a fair share of the costs of centralized general government services to the budgets of departments supported by revenues that are largely self-determined. These allocations are executed in the form of payments to the General Subfund from these independently supported departments. The City has been audited recently, which has resulted in small changes to how the City creates its cost allocations. Also, the former Department of Executive Administration (DEA) has merged with the former Fleets & Facilities Department (FFD) into the Department of Finance and Administrative Services (FAS). This means that central service charges that accrued to the General subfund to support the former DEA's work will now go directly to FAS's operating fund. More details about these cost allocations and methods are detailed in the Cost Allocation section of this budget.

Interfund Transfers

Interfund transfers. Occasionally, transfers from departments to the General Subfund take place to pay for specific programs that would ordinarily be executed by a general government department or to capture existing unreserved fund balances. A detailed list of these transfers is included in the General Subfund revenue table found in the Funds, Subfunds, and Other section.

In ratifying the 2011 and 2012 Budgets, it is the intent of the City Council and the Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the General Subfund revenue table to the General Subfund.

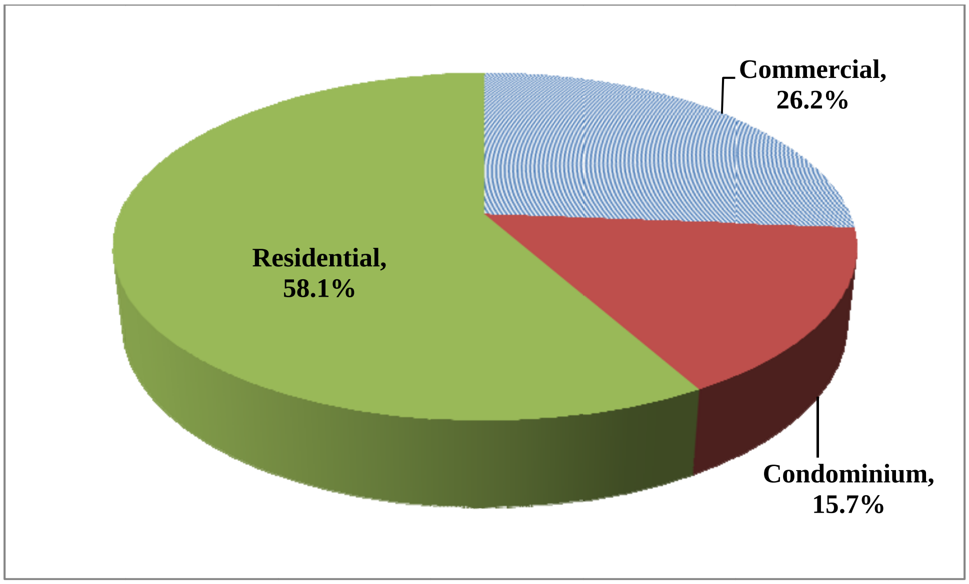
Cumulative Reserve Subfund – Real Estate Excise Tax

The Cumulative Reserve Subfund resources are used primarily for the maintenance and development of City general government capital facilities. These purposes are supported mainly by revenues from the Real Estate Excise Tax (REET), but also, to a lesser degree, by the proceeds from certain property sales and rents, street vacation revenues, General Subfund transfers, and interest earnings on subfund balances.

The REET is levied by the City at a rate of 0.5% on sales of real estate measured by the full selling price. Because the tax is levied on transactions, the amount of revenue that the City receives from REET is determined by both the volume and value of transactions.

Over time, 58.1% of the City's REET tax base has come from the sale of residential properties, which include single-family homes, duplexes, and triplexes. Commercial sales, which include apartments with four units or more, account for 26.2% of the tax base, and condominiums constitute the remaining 15.7% (see Figure 14).

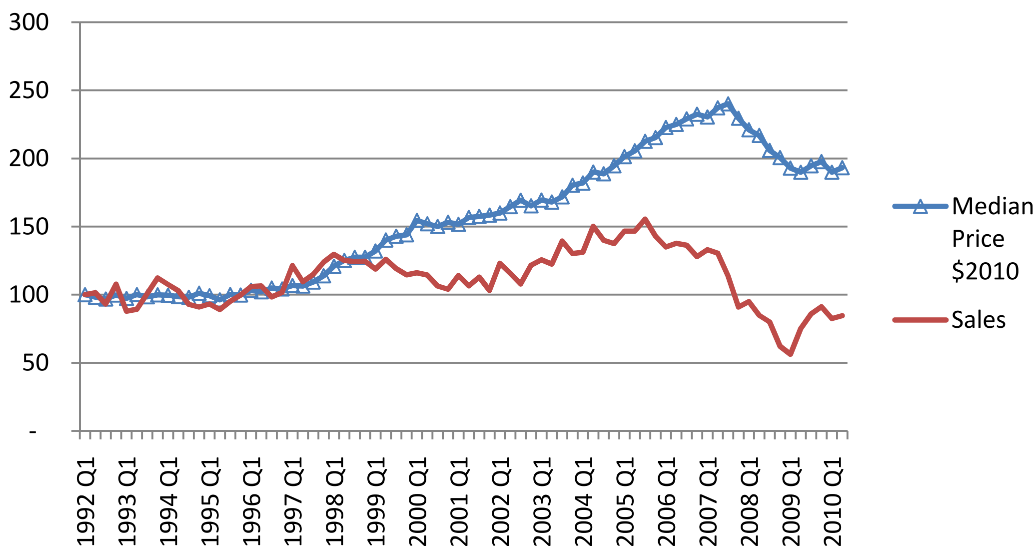
Figure 14. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2009



Historically REET revenue growth has been volatile. The value of Seattle real estate transactions (the REET tax base) increased at an average annual rate of 13.1% between 1982 and 2007, a period when Seattle area inflation averaged only 3.4% per year. Growth was particularly strong during the recent boom years, fuelled by low interest rates and a growing economy. 2008 saw the national property bust that started in late 2005 come to Seattle. The REET tax base declined 50.7% from 2007 to 2008, and continued to decline by 23.4% into 2009. The decline has been felt across all three real estate categories. 2010 is expected to show almost no growth, around 0.2%, followed by 4.2% in 2011.

The volatility of REET is reflected by the fact that despite a 9.4% average annual growth rate, the REET tax base declined in eight years during the period 1982 – 2009 (see Figure 15). This volatility is largely the result of changes in sales volumes, which are sensitive to shifts in economic conditions and movements in interest rates; average prices tend to be more stable over time. That price stability has been severely compromised in this downturn as Seattle area prices for residential properties have fallen 23.4% from their peak, according to the Case/Shiller Home Price Index. Commercial activity tends to be more volatile than the residential market, in part because the sale of a handful of expensive properties can result in significant swings in the value of commercial sales from one year to the next.

Figure 15. Seattle Single-family Home Sales 1992Q1=100



*All data have been seasonally adjusted, prices have been adjusted to $2010

REET revenue appears to have stabilized. According to the Case/Shiller Home Price Index, average home prices for the U.S. are down 31.8% from their peak. Some prominent national forecasters expect the bottom to occur at a 40.0% drop from peak. Recently, there have been some signs of life in the national market, as mortgage rates have been historically low and the tax code has been further modified to encourage home-ownership. Still, the national and local real estate markets continue to be muted.

It appears that Seattle home sales hit bottom in the early part of 2009, and prices reached their lowest point later that summer (see Figure 15). Seattle's commercial real estate market has been hit severely by this downturn, as businesses close and commercial landlords deal with an office vacancy rate above 20%. Most of the REET growth for the coming years is expected to come from single-family and condo sales, as commercial properties sit empty and unsold.

Transportation Fund – Bridging the Gap Revenue Sources

The Transportation Fund is the primary operating fund whose resources support the management, maintenance, design, and construction of the City's transportation infrastructure. The fund receives revenues and resources from a variety of sources: General Subfund transfers, distributions from the State's Motor Vehicle Fuel tax, state and federal grants, service charges, user fees, bond proceeds, and several other sources more fully presented in the Transportation Department section of this budget document. In September 2006, the City and the voters of Seattle approved the nine-year Phase One of the 20-year Bridging the Gap program aimed at overcoming the City's maintenance backlog and making improvements to the bicycle, pedestrian, bridge, and roadway infrastructure. The foundation of the program was establishing three additional revenue sources: a levy lid lift (Ordinance 122232), a commercial parking tax (Ordinance 122192), and a business transportation, or employee hours tax (Ordinance 122191).

The transportation lid lift is a nine-year levy authorized under RCW 84.55.050 to be collected from 2007 through 2015. The lid lift provides a stable revenue stream that raised $38.5 million in 2009. It is projected to raise $39.4 million in 2010, $40.0 million in 2011 and $40.7 million in 2012.

The commercial parking tax is a tax on the act or privilege of parking a motor vehicle in a commercial parking lot within the City that is operated by a commercial parking business. The tax rate was initially established at 5% effective July 1, 2007. The rate increased on July 1, 2008, to 7.5%, and then to 10% in 2009. The tax yielded $18.7 million in 2009. The forecast is $21.8 million for 2010. The 2011 Adopted and 2012 Endorsed Budgets assume the commercial parking tax rate increases to 12.5 percent January 1, 2011. This increase results in an additional $5.1 million in 2011, raising the total forecast to $27.5 million, and an additional $5.3 million in 2012 for a total revenue estimate of $28.5 million. As noted, the original 10% commercial parking tax was established as part of the Bridging the Gap transportation program. These additional revenues from the 2.5% increase are authorized to fund a variety of transportation purposes, which are described in the Department of Transportation's section of this budget.

The business transportation tax (or employee hours tax) was a tax levied and collected from every firm for the act or privilege of engaging in business activities within the City of Seattle. The amount of the tax was based on the number of hours worked in Seattle or, alternatively, on a full-time equivalent employee basis. The tax rate per hour was $0.01302, which is equivalent to $25 per full-time employee working at least 1,920 hours annually. Several exemptions and deductions were provided in the authorizing ordinance. Most notably, a deduction was offered for those employees who regularly commuted to work by means other than driving a motor vehicle alone. The tax raised $4.8 million in 2008 and $5.9 million in 2009. The tax was eliminated effective in 2010. This decision was supported by the performance of the commercial parking tax, the difficult economic situation facing businesses, and the costs to businesses and the City of administering the tax.

Figure 16. Seattle City Tax Rates

	2007	2008	2009	2010
Property Taxes (Dollars per $1,000 of Assessed Value)				
General Property Tax	$1.88	$1.70	$1.55	$1.78
Families & Education	0.16	0.14	0.12	0.14
Seattle Center/Parks Comm. Ctr.	0.01			
Parks and Open Space	0.26	0.18	0.18	0.20
Low Income Housing	0.04	0.03	0.03	0.17
Fire Facilities	0.20	0.17	0.15	0.09
Transportation	0.35	0.31	0.27	0.31
Pike Place Market			0.09	0.10
Emergency Medical Services	0.21	0.30	0.27	0.30
Low Income Housing (Special Levy)	0.08	0.07	0.06	
City Excess GO Bond	0.25	0.17	0.13	.014
Retail Sales and Use Tax	0.85%	0.85%	0.85%	0.85%
Business and Occupation Tax				
Retail/Wholesale	0.215%	0.215%	0.215%	0.215%
Manufacturing/Extracting	0.215%	0.215%	0.215%	0.215%
Printing/Publishing	0.215%	0.215%	0.215%	0.215%
Service, other	0.415%	0.415%	0.415%	0.415%
International Finance	0.000%	0.000%	0.000%	0.150%
City of Seattle Public Utility Business Taxes				
City Light	6.00%	6.00%	6.00%	6.00%
City Water	15.54%	15.54%	19.87%	19.87%*
City Drainage	11.50%	11.50%	11.50%	11.50%
City Wastewater	12.00%	12.00%	12.00%	12.00%
City Solid Waste	11.50%	11.50%	11.50%	11.50%
City of Seattle Private Utility B&O Tax Rates				
Cable Communications (not franchise fee)	10.00%	10.00%	10.00%	10.00%
Telephone	6.00%	6.00%	6.00%	6.00%
Natural Gas	6.00%	6.00%	6.00%	6.00%
Steam	6.00%	6.00%	6.00%	6.00%
Commercial Solid Waste	11.50%	11.50%	11.50%	11.50%
Franchise Fees				
Cable Franchise Fee	4.20%	4.20%	4.20%	4.20%
Admission and Gambling Taxes				
Admissions tax	5.00%	5.00%	5.00%	5.00%
Amusement Games (less prizes)	2.00%	2.00%	2.00%	2.00%
Bingo (less prizes)	10.00%	10.00%	10.00%	10.00%
Punchcards/Pulltabs	5.00%	5.00%	5.00%	5.00%

*The 19.87% rate was effective March 31, 2009, and includes a temporary surcharge to respond to a court decision. This surcharge will expire on December 31, 2010, and the tax rate will then revert to 15.54%.

Debt Policies

- The City of Seattle seeks to maintain the highest possible credit ratings for all categories of short- and long-term General Obligation debt that can be achieved without compromising delivery of basic City services and achievement of adopted City policy objectives.

- The City will reserve $100 million of legal limited tax (councilmanic) general obligation debt capacity, or 12% of the total legal limit, whichever is larger, for emergencies. The 12% reserve is now significantly greater than $100 million.

- Except in emergencies, net debt service paid from the General Subfund will not exceed 9% of the total General Fund budget. In the long run, the City will seek to keep net debt service at 7% or less of the General Fund budget.

General Fund Fund Balance and Reserve Policies

- At the beginning of each year, sufficient funds shall be appropriated to the Emergency Subfund so that its balance equals 37.5 cents per thousand dollars of assessed value, which is the maximum amount allowed by state law.

- Tax revenues collected during the closed fiscal year which are in excess of the latest revised estimate of tax revenues for the closed fiscal year shall automatically be deposited to the Revenue Stabilization Account of the Cumulative Reserve Subfund (commonly referred to as the "Rainy Day Fund"). At no time shall the balance of the Revenue Stabilization Account exceed 5% of the amount of tax revenues received by the City during the fiscal year prior to the closed fiscal year.

Other Citywide Policies

- As part of the Mayor's budget proposal, the Executive develops a revenue estimate that is based on the best available economic data and forecasts.

- The City intends to adopt rates, fees, and cost allocation charges no more often than biennially. The rate, fee, or allocation charge structures may include changes to take effect at specified dates during or beyond the biennium. Other changes may still be needed in the case of emergencies or other unanticipated events.

- In general, the City will strive to pay for general government current operating expenditures with current revenues, but may use fund balance or other resources to meet these expenditures. Revenues and expenditures will be monitored throughout the year.

- In compliance with State law, no City fund whose purpose is restricted by state or local law shall be used for purposes outside of these restrictions.

- Working capital for the General Fund and operating funds should be maintained at sufficient levels so that timing lags between revenues and expenditures are normally covered without any fund incurring negative cash balances for greater than 90 days. Exceptions to this policy are permitted with prior approval by the City Council.

Budget Process

Washington state law requires cities with populations greater than 300,000, such as Seattle, to adopt balanced budgets by December 2 of each year for the fiscal year beginning January 1. The adopted budget appropriates funds and establishes legal expenditure limits for the upcoming fiscal year.

Washington state law also allows cities to adopt biennial budgets. In 1993, the City ran a pilot test on the concept of biennial budgeting for six selected departments. In 1995, the City moved from an annual to a modified biennial budget. Under this approach, the City Council formally adopts the budget for the first year of the biennium and endorses, but does not appropriate, the budget for the second year. The second year budget is based on the City Council endorsement and is formally adopted by the City Council after a midbiennial review.

Budgetary Basis

The City budgets on a modified accrual basis. Property taxes, sales taxes, business and occupation taxes, and other taxpayer-assessed revenues due for the current year are considered measurable and available and, therefore, as revenues, even though a portion of the taxes may be collected in the subsequent year. Licenses, fines, penalties, and miscellaneous revenues are recorded as revenues when they are received in cash since this is when they can be accurately measured. Investment earnings are accrued as earned.

Expenditures are considered a liability when they are incurred. Interest on long-term debt, judgments and claims, workers' compensation, and compensated absences are considered a liability when they are paid.

Budget Preparation

Executive preparation of the budget generally begins in February and concludes no later than October 2 with the Mayor's submittal to the City Council of proposed operating and capital improvement program (CIP) budgets. Operating budget preparation is based on the establishment of a current services or "baseline" budget. Current services is defined as continuing programs and services the City provided in the previous year, in addition to previous commitments that will affect costs in the next year or two (when developing the two-year biennial budgets), such as the voter-approved levy for new park facilities, as well as labor agreements and changes in health care, insurance, and cost-of-living-adjustments for City employees. At the outset of a new biennium, current services budgets are established for both the first and second years. For the midbiennium budget process, the Executive may define the current services budget as the second year budget endorsed by the City Council the previous November, or re-determine current service levels. For example, the 2010 Adopted Budget was used as the basis for the 2011-2012 Proposed Budget.

During the budget preparation period, the Department of Finance and Administrative Services (FAS), working in conjunction with the City Budget Office (CBO), makes two General Fund revenue forecasts, one in April and one in August. Both are used to determine whether the City's projected revenues are sufficient to meet the projected costs of the current services budget. The revenue estimates must be based on the prior 12 months of experience. Proposed expenditures cannot exceed the reasonably anticipated and legally authorized revenues for the year unless the Mayor proposes new revenues. In that case, proposed legislation to authorize the new revenues must be submitted to the City Council with the proposed budget.

In May, departments prepared and submitted Budget Issue Papers (BIPs) to CBO for mayoral consideration. The Mayor's Office reviewed and provided direction to departments on the BIPs to be included in the department's budget submittal in early June. In early July, CBO received departmental operating budget and CIP submittals, including all position changes. Mayoral review and evaluation of department submittals took place during the month of August. CBO, in conjunction with individual departments, then finalized the operation and CIP budgets.

The process culminates in the proposed operating budget and CIP. Seattle's budget and CIP also allocate Community Development Block Grant funding. Although this federally funded program has unique timetables and requirements, Seattle coordinates it with the annual budget and CIP processes to improve preparation and budget allocation decisions, and streamline budget execution.

In late September, the Mayor submits the proposed budget and CIP to the City Council. In addition to the budget documents, CBO prepares supporting legislation and other related documents.

Budget Adoption

After the Mayor submits the proposed budget and CIP, the City Council conducts public hearings. The City Council also holds committee meetings in open session to discuss budget requests with department representatives and CBO staff. Councilmembers then recommend specific budget actions for consideration by their colleagues. After completing the public hearing and deliberative processes, and after making changes to the Mayor's proposed budget, the City Council adopts the budget in late November through an ordinance passed by majority vote. The Mayor can choose to approve the Council's budget, veto it, or let it become law without mayoral signature. The Mayor must veto the entire budget or none of it. There is no line-item veto in Seattle. Copies of budget documents are available for public inspection at the CBO offices, at the Seattle Public Library, and on the Internet at http://www.seattle.gov/budgetoffice.

During the budget review process, the City Council may choose to explain its budget actions further by developing statements of legislative intent and budget guidance statements for future budget action. Intent statements state the Council's expectations in making budget decisions and generally require affected departments to report back to the City Council on results. A chart summarizing the City's budget process schedule is provided at the end of this section.

Legal Budget Control

The adopted budget generally makes appropriations for operating expenses at the budget control level within departments, unless the expenditure is from one of the General Fund reserve accounts, or is for a specific project or activity budgeted in the General Subfund category called Finance General. These projects and activities are budgeted individually. Capital projects programmed in the CIP are appropriated in the budget at the program or project level. Grant-funded activities are controlled as prescribed by law and federal or state regulations.

Budget Execution

Within the legally adopted budget authorizations, more detailed allocations, as approved by CBO, are recorded in the City's accounting system, called SUMMIT, at the lowest levels of each department's organizational structure and in detailed expenditure accounts. Throughout the budget year, CBO monitors revenue and spending performance against the budget to protect the financial stability of the City.

Budget Amendment

A majority of the City Council may, by ordinance, eliminate, decrease, or re-appropriate any unexpended appropriations during the year. The City Council, generally with a three-fourths vote, may also increase appropriations from available money to meet necessary expenditures that were not foreseeable earlier. Additional unforeseeable appropriations related to settlement of claims, emergency conditions, or laws enacted since passage of the annual operating budget ordinance require approval by a two-thirds vote of the City Council.

The Budget Director may approve, without ordinance, appropriation transfers within a department or agency of up to 10%, and with no more than $500,000 of the appropriation authority for the particular budget control level or, where appropriate, line item, being increased. In addition, no transfers can reduce the appropriation authority of a budget control level by more than 25%.

In accordance with Washington state law, any unexpended appropriations for operating or ordinary maintenance expenditures automatically lapse at the close of the fiscal year, except for any appropriation continued by ordinance. Unexpended appropriations for capital outlays remaining at the close of the fiscal year are carried forward to the following year, except for any appropriation abandoned by ordinance.

BUDGET PROCESS DIAGRAM – 2011 ADOPTED BUDGET

PHASE I – Budget Submittal Preparation	**FEBRUARY-MARCH** CBO provides departments with the general structure, conventions and schedule for the 2011-2012 Budget	**MARCH - APRIL** CBO prepares revenue projections for 2011	**APRIL** CBO issues budget and CIP development instructions to departments
	MAY Departments submit Budget Issue Papers (BIPs) to describe how they will arrive at their budget targets	**MAY-JUNE** Mayor's Office and CBO review the BIPs and provide feedback to departments	**JULY** Departments submit budget and CIP proposals to CBO based on Mayoral direction CBO reviews departmental proposals for organizational changes
PHASE II – Proposed Budget Preparation	**JULY-AUGUST** The Mayor's Office and CBO review department budget and CIP proposals	**AUGUST-SEPTEMBER** Mayor's Office makes final decisions on the Proposed Budget and CIP Proposed Budget and CIP documents are produced	**SEPTEMBER** Mayor presents the Proposed Budget and CIP to City Council
PHASE III – Adopted Budget Preparation	**SEPTEMBER-OCTOBER** Council develops a list of issues for review during October and November CBO and departments prepare revenue and expenditure presentations for Council	**OCTOBER-NOVEMBER** Council reviews Proposed Budget and CIP in detail Budget and CIP revisions developed, as are Statements of Legislative Intent and Budget Provisos	**NOVEMBER-DECEMBER** Council adopts operating budget and CIP Note: Budget and CIP must be adopted no later than December 2